OFFICIAL STATEMENT DATED JANUARY 14, 2010

NEW ISSUE–BOOK-ENTRY ONLY

Rating†
Standard & Poor's (insured): A-
Fitch (underlying): BBB+

In the opinion of Holland & Knight LLP, Bond Counsel, assuming compliance with certain arbitrage rebate and other tax requirements referred to herein, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes and will not be treated as an item of tax preference in computing the federal alternative minimum tax. Interest on the Bonds will, however, be taken into account in computing an adjustment made in determining a corporate Bondholder's alternative minimum tax based on such Bondholder's adjusted current earnings. It is further the opinion of Bond Counsel that, under existing law, interest on the Bonds is exempt from present personal income taxes imposed by the State of California. For a description of the consequences to holders of the Bonds of other provisions of the Internal Revenue Code of 1986, as amended, see "TAX MATTERS" herein.

$54,310,000
ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
Insured Revenue Bonds
(Casa de las Campanas, Inc.)
Series 2010

Casa de las Campanas

Dated: Date of Delivery **Due: September 1, as shown on inside cover**

The Bonds are issuable in fully registered form only in denominations of $5,000 or any integral multiple thereof and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Beneficial owners of Bonds will not receive physical certificates representing the Bonds purchased but will receive a credit balance on the books of the nominees of such purchasers. So long as Cede & Co. is the registered owner of the Bonds, principal of and premium, if any, and interest on the Bonds will be paid by U.S. Bank National Association, as Trustee, to DTC, which, in turn, will remit such principal, premium, if any, and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds, as described herein. Interest on the Bonds is payable on March 1 and September 1 of each year, commencing March 1, 2010.

The Bonds are limited obligations of the ABAG Finance Authority for Nonprofit Corporations (the "Authority"), secured under the provisions of the Indenture and Loan Agreement, as described herein, and will be payable from Loan Repayments made by Casa de las Campanas, Inc., a California nonprofit public benefit corporation (the "Corporation") under the Loan Agreement and from certain funds held under the Indenture.

The Bonds are subject to optional, mandatory and extraordinary optional redemption prior to their respective maturities, as described herein.

THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY THE REVENUES PLEDGED THEREFOR PURSUANT TO THE INDENTURE. NONE OF THE AUTHORITY, THE ASSOCIATION OF BAY AREA GOVERNMENTS ("ABAG") OR THE MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS OF THE AUTHORITY, ABAG OR ANY OF THEIR MEMBERS TO PAY ALL OR ANY PORTION OF DEBT SERVICE DUE ON THE BONDS. THE BONDS AND THE OBLIGATION TO PAY PRINCIPAL THEREOF AND INTEREST THEREON AND ANY REDEMPTION PREMIUM WITH RESPECT THERETO, DO NOT CONSTITUTE AN INDEBTEDNESS OR AN OBLIGATION OF THE AUTHORITY OR ABAG, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION, OR A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF ANY OF THEM, BUT SHALL BE PAYABLE SOLELY FROM THE REVENUES DESCRIBED HEREIN. NO OWNER OF THE BONDS SHALL HAVE THE RIGHT TO COMPEL THE EXERCISE OF THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO PAY ANY PRINCIPAL OR PREMIUM, IF ANY, OR INTEREST ON THE BONDS. NEITHER THE AUTHORITY NOR ABAG HAS ANY TAXING POWER.

Pursuant to the California Constitution Article XVI, Section 4, and California Health and Safety Code, Division 107, Part 6, Chapter 1, payment of the principal of and interest on the Bonds will be insured by the Office of Statewide Health Planning and Development of the State of California, and all debentures issued in payment of any claims under such insurance will be fully and unconditionally guaranteed by the State of California, all as more fully described herein.

This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of this bond issue. Investors are instructed to read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Bonds are offered when, as and if received by the Underwriter, subject to prior sale, to withdrawal or modification of the offer without notice, and to the approval of certain legal matters by Holland & Knight LLP, Bond Counsel to the Authority. Certain legal matters will be passed upon for the Authority by its special counsel, Chapman & Cutler LLP, for the Corporation by its counsel, Procopio, Cory, Hargreaves & Savitch LLP, San Diego, California, for the Office by its staff counsel and for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP. It is expected that the Bonds in book-entry form will be available for delivery through the facilities of DTC on or about January 28, 2010.

CAIN BROTHERS

Date: January 14, 2010

† For an explanation of the rating, see "RATINGS" herein.

MATURITY SCHEDULE

$2,600,000 3.000% Term Bond Due September 1, 2012 — Priced to yield 2.750% CUSIP† No. 00037CPU8

$3,290,000 4.000% Term Bond Due September 1, 2015 — Priced to yield 3.750% CUSIP† No. 00037CPV6

$6,565,000 5.125% Term Bond Due September 1, 2020 — Priced to yield 5.150% CUSIP† No. 00037CPW4

$1,520,000 5.250% Term Bond Due September 1, 2021 — Priced to yield 5.250% CUSIP† No. 00037CPT1

$5,060,000 5.250% Term Bond Due September 1, 2024 — Priced to yield 5.450% CUSIP† No. 00037CPX2

$35,275,000 6.000% Term Bond Due September 1, 2037 — Priced to yield 6.050% CUSIP† No. 00037CPY0

This Official Statement does not constitute an offer to sell the Bonds or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any state or other jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale in such state or jurisdiction. No dealer, salesperson or any other person has been authorized to give any information or to make any representation other than those contained herein in connection with the offering of the Bonds, and, if given or made, such information or representation must not be relied upon.

The information set forth herein under the captions "THE AUTHORITY" and "MATERIAL LITIGATION — The Authority" has been furnished by the Authority, the information set forth herein under the caption "CALIFORNIA HEALTH FACILITY CONSTRUCTION LOAN INSURANCE PROGRAM" has been furnished by the Office of Statewide Health Planning and Development of the State of California (the "Office"), and the information set forth herein under the caption "THE BONDS—Book-Entry System" and in APPENDIX F hereto has been furnished by DTC. Such information is believed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Corporation. All other information set forth herein has been obtained from the Corporation and other sources that are believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Authority. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the Bonds made hereunder shall create under any circumstances any indication that there has been no change in the affairs of the Authority, the Office, the Corporation or DTC since the date hereof.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with and as part of its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS OFFERED HEREBY AT LEVELS ABOVE THAT WHICH OTHERWISE MIGHT PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements generally are identifiable by the terminology used, such as "plan," "expect," "estimate," "budget" or other similar words. Such forward-looking statements include but are not limited to certain statements contained in the information under the captions "PLAN OF FINANCING" and "BONDHOLDERS' RISKS" in the forepart of this Official Statement and the statements contained under the caption "FINANCIAL INFORMATION—Management's Discussion and Analysis of Recent Financial Performance" in APPENDIX A – "INFORMATION CONCERNING CASA DE LAS CAMPANAS, INC."

The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The Corporation does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.

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OFFICIAL STATEMENT

$54,310,000
ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
Insured Revenue Bonds
(Casa de las Campanas, Inc.)
Series 2010

INTRODUCTORY STATEMENT

The following introductory statement is subject in all respects to the more complete information set forth in this Official Statement. The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive and are qualified in their entirety by reference to each document. All capitalized terms used in this Official Statement and not otherwise defined herein have the same meaning as in the Indenture or the Regulatory Agreement (each as defined below). See APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—Definitions of Certain Terms."

Purpose of this Official Statement

This Official Statement, including the cover page and the appendices hereto, is provided to furnish information in connection with the sale and delivery of $54,310,000 aggregate principal amount of ABAG Finance Authority for Nonprofit Corporations (the "Authority") Insured Revenue Bonds (Casa de las Campanas, Inc.), Series 2010 (the "Bonds"). The Bonds will be issued pursuant to and secured by a bond indenture, dated as of January 1, 2010 (the "Indenture"), between the Authority and U.S. Bank National Association, as trustee (the "Trustee"). The Authority will lend the proceeds of the Bonds to Casa de las Campanas, Inc., a California nonprofit public benefit corporation (the "Corporation"), which loan will be evidenced by a loan agreement, dated as of January 1, 2010 (the "Loan Agreement"), between the Authority and the Corporation.

The Corporation

The Corporation is a California nonprofit public benefit corporation and is exempt from federal income taxes as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the "Code"). The Corporation was originally organized in 1989 to provide multi-level housing, non-acute health care and related services to the elderly. The Corporation owns a continuing care retirement facility, which includes 380 units of independent living, a 33-unit assisted living unit with a capacity of 44 beds, an 18-unit dementia/assisted living unit with a capacity of 27 beds, and an adjacent 99-bed skilled nursing facility located in the Rancho Bernardo area of northern San Diego County, 25 miles from downtown San Diego, California. For important information about the Corporation, see APPENDIX A – "INFORMATION CONCERNING CASA DE LAS CAMPANAS, INC." and APPENDIX B – "AUDITED FINANCIAL STATEMENTS OF CASA DE LAS CAMPANAS, INC."

Insurance of the Bonds by the Office

In accordance with the California Health Facility Construction Loan Insurance Law, Chapter 1 of Part 6 of Division 107 of the California Health and Safety Code (the "Insurance Law"), the Authority and the Corporation will enter into a contract of insurance, dated as of January 1, 2010 (the "Contract of Insurance"), with the Office of Statewide Health Planning and Development of the State of California (the "Office"), pursuant to which the Office will insure the payment of the principal of and interest on the

Bonds, and the Authority and the Corporation will enter into a regulatory agreement, dated as of January 1, 2010 (the "Regulatory Agreement"), with the Office, with respect to the Bonds. If moneys are not available to pay the principal of or interest on the Bonds, the Office will be obligated to continue to make payments on the Bonds or shall instruct the Trustee to declare the principal of all Bonds then Outstanding and interest accrued thereon to be due and payable immediately and make payment of such principal and interest, and, upon the occurrence of certain events, shall notify the Treasurer of the State of California (the "Treasurer"), and the Treasurer shall issue debentures to the holders of the Bonds fully and unconditionally guaranteed by the State of California (the "State") in an amount equal to the principal of and accrued interest on the Bonds. For a more detailed description of the obligation of the Office to insure the payment of the principal of and interest on the Bonds and the procedures with respect to insurance default, and the obligations of the Corporation pursuant to the Regulatory Agreement, see "CALIFORNIA HEALTH FACILITY CONSTRUCTION LOAN INSURANCE PROGRAM" and APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—Contract of Insurance" and "—Regulatory Agreement."

Security for the Bonds

The Bonds are limited obligations of the Authority, secured under the provisions of the Indenture and Loan Agreement, as described herein, and will be payable from payments (the "Loan Repayments") made by the Corporation under the Loan Agreement and from certain funds held under the Indenture. Pursuant to the Loan Agreement, the Corporation is required to make aggregate payments in an amount sufficient to enable the Authority to pay in full, when due, the principal of and premium, if any, and interest on the Bonds.

The Corporation's obligations under the Loan Agreement and the Regulatory Agreement will be secured by (i) a security interest (to the extent permitted by law) to the Trustee and the Office in the Gross Revenue Fund and all of the Gross Revenues of the Corporation, as provided in the Loan Agreement, and (ii) a lien on all real property and fixtures of the Corporation (the "Facilities") created by a Deed of Trust with Fixture Filing and Security Agreement, dated as of January 1, 2010 (the "Deed of Trust") executed by the Corporation for the benefit of the Trustee for the holders of the Bonds and any Parity Debt (as defined herein). **For as long as the Office is obligated under the Contract of Insurance, all rights under the Deed of Trust shall be exercised solely by the Office. With the consent of the Office, the Deed of Trust may be amended, subordinated or terminated at any time without the necessity of obtaining the consent of the Trustee, the Authority, the Holders of the Bonds, or the holders of any other Parity Debt.** An ALTA title insurance policy on the Facilities in an amount not less than the aggregate principal amount of the Bonds will be delivered at the time of issuance of the Bonds.

Parity Debt; Other Indebtedness

The Corporation has outstanding indebtedness that will be discharged with the proceeds of the Bonds. See Note 10 to APPENDIX B – "AUDITED FINANCIAL STATEMENTS OF CASA DE LAS CAMPANAS, INC."

The Corporation may also incur other indebtedness which may be secured on a parity with its obligations with respect to the Bonds, if certain conditions are met.

For a further description of the security of the Bonds and Parity Debt, see "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS."

Plan of Financing

The Corporation will use the proceeds of the Bonds, together with other available funds, to (a) refund the ABAG Finance Authority for Nonprofit Corporations Variable Rate Revenue Refunding Bonds (Casa De Las Campanas, Inc.) Series 2007A (Tax-Exempt) and Series 2007B (Taxable) (collectively, the "Series 2007 Bonds"); (b) fund a termination payment due in connection with a certain swap agreement executed in connection with the Series 2007 Bonds; (c) finance the costs of the acquisition, construction and equipping, of certain facilities of the Corporation (the "Project"); (d) fund a bond reserve account established under the Indenture in an amount equal to the Bond Reserve Account Requirement for the Bonds; and (e) pay certain costs of issuance of the Bonds, including the insurance premium. See "PLAN OF FINANCING" and "ESTIMATED SOURCES AND USES OF FUNDS."

Bondholders' Risks

AN INVESTMENT IN THE BONDS INVOLVES A CERTAIN DEGREE OF RISK. A PROSPECTIVE BONDHOLDER IS ADVISED TO READ "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS" and "BONDHOLDERS' RISKS" FOR A DISCUSSION OF CERTAIN RISK FACTORS WHICH SHOULD BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE BONDS. Careful consideration should be given to these risks and other risks described elsewhere in this Official Statement. Among other things, since the Bonds are payable from the Gross Revenues of the Corporation, and other moneys pledged to such payment, careful evaluation should be made of certain factors that may adversely affect the ability of the Corporation to generate sufficient revenues to pay expenses of operation, including the principal of, premium, if any, and interest on the Bonds.

THE AUTHORITY

The Authority is a joint powers authority duly organized and existing under the provisions of Chapter 5 of Division 7 (commencing with Section 6500) of the Government Code of the State of California (the "Act") and a Joint Powers Agreement, dated as of April 1, 1990, as amended as of September 18, 1990 and June 9, 1992, in order to assist nonprofit corporations and other entities to obtain financing for projects located within the several jurisdictions of Authority members with purposes serving the public interest and is authorized to issue revenue bonds to finance construction, expansion, remodeling, renovation, furnishing, equipping, and acquisition of facilities operated by nonprofit corporations.

THE BONDS

General

The Bonds are being issued pursuant to the Indenture in the aggregate principal amount set forth on the cover of this Official Statement. The Bonds will be delivered in fully registered form without coupons. The Bonds will be dated their date of delivery and will be payable as to principal, subject to the redemption provisions set forth herein, on the dates and in the amounts set forth on the inside cover page hereof. The Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only, in the denominations hereinafter set forth. See "THE BONDS—Book-Entry System." The Bonds will be transferable and exchangeable as set forth in the Indenture.

The Bonds will bear interest at the rates set forth on the inside cover page hereof, payable semiannually on March 1 and September 1 of each year, commencing on March 1, 2010, to the person whose name appears on the bond registration books of the Trustee as the Holder thereof as of the close of business on the record date (which will be the fifteenth day of the month immediately preceding an Interest Payment Date, whether or not such day is a Business Day) for each Interest Payment Date (except with respect to interest in default, for which a Special Record Date shall be established). So long as Cede & Co. is the registered owner of the Bonds, principal of and premium, if any, and interest on the Bonds are payable by wire transfer by the Trustee to Cede & Co., as nominee for DTC, which, in turn, will remit such amounts to DTC Participants (as defined herein) for subsequent disbursement to the Beneficial Owners. See APPENDIX F – "BOOK-ENTRY SYSTEM."

Interest on the Bonds will be paid by check mailed by first-class mail on each Interest Payment Date to the registered owner (initially DTC) at its address as it appears on the bond registration books, or at such address as such owner may have filed with the Trustee for that purpose prior to the Record Date for each Interest Payment Date or, at the written request of any Holder of Bonds in the aggregate principal amount of $1,000,000 or more received by the Trustee prior to the Record Date, by wire transfer to an account within the United States. Payment of the principal or redemption price of Bonds will be payable in lawful money of the United States of America upon surrender or presentation thereof at the Principal Corporate Trust Office of the Trustee.

Redemption

Optional Redemption of the Bonds. The Bonds maturing on or after September 1, 2021, are subject to redemption prior to their respective stated maturities, at the option of the Authority (which option shall be exercised as directed by the Corporation), in whole or in part on or after September 1, 2020 (in such maturities as are designated by the Corporation or, if the Corporation fails to designate such maturities, in inverse order of maturity, and by lot within a maturity), upon forty-five (45) days' prior written notice to the Trustee, from any source of available moneys, at the principal amount of the Bonds called for redemption, together with interest accrued thereon to the date fixed for redemption, without premium.

Mandatory Sinking Account Redemption of the Bonds. The Bonds maturing on September 1, 2012, are subject to redemption prior to their stated maturity in part (by lot) from Mandatory Sinking Account Payments on any September 1 on or after September 1, 2010, in the amounts set forth below, at the principal amount thereof, together with interest accrued thereon to the date fixed for redemption, without premium.

Mandatory Sinking Account Payment Date (September 1)	Mandatory Sinking Account Payment
2010	$ 580,000
2011	995,000
2012*	1,025,000

* Maturity.

The Bonds maturing on September 1, 2015, are subject to redemption prior to their stated maturity in part (by lot) from Mandatory Sinking Account Payments on any September 1 on or after September 1, 2013, in the amounts set forth below, at the principal amount thereof, together with interest accrued thereon to the date fixed for redemption, without premium.

Mandatory Sinking Account Payment Date (September 1)	Mandatory Sinking Account Payment
2013	$ 1,055,000
2014	1,095,000
2015*	1,140,000

* Maturity.

The Bonds maturing on September 1, 2020, are subject to redemption prior to their stated maturity in part (by lot) from Mandatory Sinking Account Payments on any September 1 on or after September 1, 2016, in the amounts set forth below, at the principal amount thereof, together with interest accrued thereon to the date fixed for redemption, without premium.

Mandatory Sinking Account Payment Date (September 1)	Mandatory Sinking Account Payment
2016	$ 1,185,000
2017	1,245,000
2018	1,310,000
1019	1,375,000
2020*	1,450,000

* Maturity.

The Bonds maturing on September 1, 2021, are subject to redemption prior to their stated maturity in part (by lot) from Mandatory Sinking Account Payments on any September 1 on or after September 1, 2021, in the amounts set forth below, at the principal amount thereof, together with interest accrued thereon to the date fixed for redemption, without premium.

Mandatory Sinking Account Payment Date (September 1)	Mandatory Sinking Account Payment
2021*	$ 1,520,000

* Maturity.

The Bonds maturing on September 1, 2024, are subject to redemption prior to their stated maturity in part (by lot) from Mandatory Sinking Account Payments on any September 1 on or after September 1, 2022, in the amounts set forth below, at the principal amount thereof, together with interest accrued thereon to the date fixed for redemption, without premium.

Mandatory Sinking Account Payment Date (September 1)	Mandatory Sinking Account Payment
2022	$ 1,600,000
2023	1,685,000
2024*	1,775,000

* Maturity.

The Bonds maturing on September 1, 2037, are subject to redemption prior to their stated maturity in part (by lot) from Mandatory Sinking Account Payments on any September 1 on or after September 1, 2025, in the amounts set forth below, at the principal amount thereof, together with interest accrued thereon to the date fixed for redemption, without premium.

Mandatory Sinking Account Payment Date (September 1)	Mandatory Sinking Account Payment
2025	$ 1,870,000
2026	1,980,000
2027	2,100,000
2028	2,225,000
2029	2,360,000
2030	2,500,000
2031	2,650,000
2032	2,810,000
2033	2,975,000
2034	3,155,000
2035	3,345,000
2036	3,545,000
2037*	3,760,000

* Maturity.

Extraordinary Optional Redemption of the Bonds. The Bonds are subject to redemption prior to their respective stated maturities, at the option of the Authority (which option shall be exercised as directed by the Corporation), as a whole or in part (in such maturities as are designated by the Corporation or, if the Corporation fails to designate such maturities, in inverse order of maturity, and by lot within a maturity), on any date from certain insurance or condemnation proceeds received with respect to the Facilities, in each case under the circumstances prescribed and as provided in the Regulatory Agreement, at the principal amount thereof, together with interest accrued thereon to the date fixed for redemption, without premium.

Notice of Redemption; Effect of Redemption. Notice of redemption shall be mailed by first class mail by the Trustee, not less than 30 nor more than 60 days prior to the redemption date to (i) the respective Owners of any Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee, and (ii) the Authority and one or more Information Services. Notice of redemption shall also be given by facsimile, first class mail or electronic transmission to the Securities Depositories. Each notice of redemption shall state the redemption date, the place or places of redemption, the maturities, the date of issue of the Bonds, the CUSIP number (if any) of the maturity or maturities and, if less than all of any such maturity, the distinctive numbers (or inclusive ranges of distinctive numbers) of the Bonds of such maturity, to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said Bonds the Redemption Price thereof or of said specified portion of the principal amount thereof in the case of a fully registered Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered. Neither the Authority nor the Trustee shall have any responsibility for any defect in the CUSIP number that appears on any Bond or in any redemption notice with respect thereto.

Book-Entry System

The Bonds will be issued in book-entry form. DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Bond will be issued for each maturity in the total aggregate principal amount due on such maturity and will be deposited with DTC. See APPENDIX F – "BOOK-ENTRY SYSTEM."

ANNUAL DEBT SERVICE

The following table sets forth, for each year ending September 1, the amounts required to be made available for the payment of total debt service on the Bonds.

Year Ending September 1,	Principal	Interest	Total Debt Service	Year Ending September 1,	Principal	Interest	Total Debt Service
2010	$ 580,000.00	$1,779,737.04	$2,359,737.04	2024	$1,775,000.00	$2,209,687.50	$3,984,687.50
2011	995,000.00	2,990,606.26	3,985,606.26	2025	1,870,000.00	2,116,500.00	3,986,500.00
2012	1,025,000.00	2,960,756.26	3,985,756.26	2026	1,980,000.00	2,004,300.00	3,984,300.00
2013	1,055,000.00	2,930,006.26	3,985,006.26	2027	2,100,000.00	1,885,500.00	3,985,500.00
2014	1,095,000.00	2,887,806.26	3,982,806.26	2028	2,225,000.00	1,759,500.00	3,984,500.00
2015	1,140,000.00	2,844,006.26	3,984,006.26	2029	2,360,000.00	1,626,000.00	3,986,000.00
2016	1,185,000.00	2,798,406.26	3,983,406.26	2030	2,500,000.00	1,484,400.00	3,984,400.00
2017	1,245,000.00	2,737,675.00	3,982,675.00	2031	2,650,000.00	1,334,400.00	3,984,400.00
2018	1,310,000.00	2,673,868.76	3,983,868.76	2032	2,810,000.00	1,175,400.00	3,985,400.00
2019	1,375,000.00	2,606,731.26	3,981,731.26	2033	2,975,000.00	1,006,800.00	3,981,800.00
2020	1,450,000.00	2,536,262.50	3,986,262.50	2034	3,155,000.00	828,300.00	3,983,300.00
2021	1,520,000.00	2,461,950.00	3,981,950.00	2035	3,345,000.00	639,000.00	3,984,000.00
2022	1,600,000.00	2,382,150.00	3,982,150.00	2036	3,545,000.00	438,300.00	3,983,300.00
2023	1,685,000.00	2,298,150.00	3,983,150.00	2037	3,760,000.00	225,600.00	3,985,600.00

SECURITY AND SOURCE OF PAYMENT FOR THE BONDS

General

The Bonds are limited obligations of the Authority and, except to the extent payable from Bond proceeds, investment earnings or proceeds of insurance or condemnation awards, are payable solely from Loan Repayments required to be paid by the Corporation to the Trustee under the Loan Agreement and from certain other funds held under the Indenture. In the Loan Agreement, the Corporation agrees to make payments to the Trustee, which payments, in the aggregate, are required to be in amounts sufficient for the payment in full of all amounts payable with respect to all Bonds, including the total interest payable on the Bonds to their respective stated maturities, the principal amount of the Bonds, any redemption premiums and certain other fees and expenses (consisting generally of reasonable fees and charges of the Trustee, accountants' fees and reasonable fees and expenses of the Authority associated with the issuance of the Bonds) (the "Additional Payments"), less any amounts available for such payment, as provided in the Indenture. See "CALIFORNIA HEALTH FACILITY CONSTRUCTION LOAN INSURANCE PROGRAM" below.

Under the Indenture, the Authority has assigned to the Trustee for the benefit of the Holders of the Bonds (a) all of the right, title and interest of the Authority in the Loan Agreement (except for the right to receive any Additional Payments or Administrative Fees or Expenses to the extent payable to the Authority, any rights of indemnification, the right to receive certain certificates and the right of the Authority under the special services covenant) and the Contract of Insurance, and its rights under the Regulatory Agreement and the Deed of Trust, and (b) all of the Revenues and any other amounts held in any fund or account established pursuant to the Indenture, other than the Rebate Fund.

Moneys on deposit in the funds and accounts held under the Indenture do not secure any Parity Debt (all as described below).

Pledge of Gross Revenues

In the Loan Agreement, the Corporation pledges and grants a security interest (to the extent permitted by law) to the Trustee and to the Office in the Gross Revenue Fund and all Gross Revenues of the Corporation to secure the payment of the Loan Repayments with respect to the Bonds and the performance by the Corporation of the other obligations under the Loan Agreement and the Regulatory Agreement and with respect to Parity Debt.

Amounts deposited in the Gross Revenue Fund may be used and withdrawn by the Corporation at any time for any lawful purpose, except as provided in the Loan Agreement. If the Corporation is delinquent for more than one Business Day in the payment of any Loan Repayment with respect to the Bonds or payment with respect to Parity Debt, the Authority or the Trustee shall notify the Corporation, the Office and the Depository Bank(s), and, unless such Loan Repayment with respect to the Bonds or payment with respect to such Parity Debt is paid within ten days after receipt of such notice, the Corporation shall cause the Depository Bank(s) to transfer the Gross Revenue Fund to the name and credit of the Trustee, but only with the written consent of the Office (provided such consent shall be required only if the Contract of Insurance is in effect and the Office is not in default thereunder). All Gross Revenues of the Corporation shall continue to be deposited in the Gross Revenue Fund but to the name and credit of the Trustee (to the extent permitted by law) until the amounts on deposit in said fund are sufficient to pay in full, or have been used to pay in full, all Loan Repayments with respect to the Bonds and payments with respect to Parity Debt in default and all other Loan Default Events and events of default with respect to Parity Debt known to the Trustee shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, whereupon the Gross Revenue Fund (except for the Gross Revenues required to make such payments or cure such defaults) shall be returned to the name and credit of the Corporation.

During any period that the Gross Revenue Fund is held in the name and to the credit of the Trustee, the Trustee will use and withdraw amounts in such fund from time to time to make Loan Repayments with respect to the Bonds and payments with respect to Parity Debt when due (whether by maturity, redemption, acceleration or otherwise), and, if such amounts shall not be sufficient to pay in full all such payments when due, then to the payment of Loan Repayments and additional payments with respect to the Bonds and payments on such Parity Debt ratably, according to the amounts due respectively for such payments, without any discrimination or preference, and to such other payments in the order that the Trustee, in its discretion, determines to be in the best interests of the holders of the Bonds and such Parity Debt, without discrimination or preference. During any period that the Gross Revenue Fund is held in the name and to the credit of the Trustee, the Corporation shall not be entitled to use or withdraw any of the Gross Revenues unless and to the extent that the Trustee in its sole discretion (or as directed by the Office) so directs for the payment of current or past due operating expenses of the Corporation (provided, however, that the Corporation shall be entitled to use or withdraw any amounts in the Gross Revenue Fund that do not constitute Gross Revenues or that applicable law specifies may not be deposited into an account held in the name of the Trustee). See APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—Loan Agreement."

The foregoing pledge of Gross Revenues will be perfected to the extent that such security interest can be perfected by filing or notice under the Uniform Commercial Code of the State of California may require and may, in several instances, be subordinated to the interest and claims of others. Some examples of cases of subordination or prior claims are (i) statutory liens, (ii) rights arising in favor of the United States of America or any agency thereof, (iii) present or future prohibitions against assignment in any federal statutes or regulations, (iv) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction, (v) federal or State of California bankruptcy or insolvency laws that may affect the enforceability of the Loan Agreement or pledge of Gross Revenues and (vi) rights of third parties in Gross Revenues converted to cash and not in the possession of the Trustee or the Depository Bank(s). In addition, enforceable security interests in certain types of Gross Revenues (e.g., restricted donations, certain insurance proceeds, payments from Medicare and Medi-Cal, and other revenues derived from governmental programs) prior to actual receipt by the Corporation for deposit in the Gross Revenue Fund may not be feasible in certain circumstances.

No Financial Covenants in Loan Agreement

Due to the insurance of the Bonds by the Office, the Loan Agreement does not contain financial or operational covenants relating to the operations of the Corporation, such as limitations on the ability of the Corporation to incur indebtedness, to dispose of property or to create liens on property. Additionally, the Loan Agreement does not require the Corporation to maintain revenues at levels sufficient to provide coverage of debt service on the Bonds or any other indebtedness. Such covenants are contained in the Regulatory Agreement, but may be waived or amended by the Office without the necessity of obtaining the consent of the Holders of the Bonds, the Authority or any other party. See APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—Loan Agreement" and "–Regulatory Agreement."

Bond Reserve Account

An amount equal to the Bond Reserve Account Requirement (as defined in the Indenture) will be deposited in the Bond Reserve Account on the date of issuance of the Bonds. The Bond Reserve Account Requirement for the Bonds equals the Maximum Annual Bond Service on all Bonds Outstanding as of the date of issuance of the Bonds. The Bond Reserve Account is required to be maintained in an amount equal to the Bond Reserve Account Requirement. The Bond Reserve Account will be valued semi-annually on each March 1 and September 1, beginning September 1, 2010. On the twentieth day of the month in which a valuation is made pursuant to the Indenture, any amount in the Bond Reserve Account in excess of the Bond Reserve Account Requirement shall be transferred to the Revenue Fund. To the extent that amounts in the Bond Reserve Account are less than the Bond Reserve Account Requirement, the Borrower shall pay to the Trustee amounts required by the Indenture. See APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—Indenture—Revenue Fund" "—Application of Bond Reserve Account" and "Definitions of Certain Terms."

Deed of Trust

The Corporation will execute the Deed of Trust pursuant to which the Corporation will grant to the trustee thereunder, for the benefit of the Office and the Trustee (as assignee of the Authority), as trustee for the Holders of the Bonds and the holders of Parity Debt, a first lien on and security interest in the Facilities, subject to Permitted Encumbrances, as security for the performance of the Corporation's obligations under the Loan Agreement, the Regulatory Agreement and the Contract of Insurance and with respect to Parity Debt. For as long as the Office is obligated under the Contract of Insurance, all rights under the Deed of Trust shall be exercised solely by the Office. With the consent of the Office, the Deed of Trust may be amended, subordinated or terminated at any time without the necessity of obtaining the consent of the Trustee, the Authority, the Holders of the Bonds or the holders of any Parity Debt. See APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—Deed of Trust." An ALTA title insurance policy on the Facilities in an amount not less than the principal amount of the Bonds will be delivered at the time of issuance of the Bonds.

FOR A FURTHER DESCRIPTION OF THE PROVISIONS OF THE LOAN AGREEMENT, THE REGULATORY AGREEMENT, THE INDENTURE AND THE DEED OF TRUST, SEE APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

Parity Debt; Other Indebtedness

In addition to its obligations with respect to the Bonds, the Corporation may incur other indebtedness that may be secured by a security interest in Gross Revenues and the lien of the Deed of Trust on a parity with the Corporation's obligation to make Loan Repayments under the Loan Agreement, if issued for the purposes and subject to the conditions provided in the Regulatory Agreement. Parity Debt may not be incurred unless it is insured by the Office or unless it is issued with the consent of the Office. See APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—Regulatory Agreement—Limitation on Indebtedness."

Upon the issuance of the Bonds, the Corporation's obligations with respect to the Bonds will constitute the only outstanding Indebtedness of the Corporation.

Limited Liability of the Authority

THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY THE REVENUES PLEDGED THEREFOR PURSUANT TO THE INDENTURE. NONE OF THE AUTHORITY, THE ASSOCIATION OF BAY AREA GOVERNMENTS ("ABAG") OR THE MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS OF THE AUTHORITY, ABAG OR ANY OF THEIR MEMBERS TO PAY ALL OR ANY PORTION OF DEBT SERVICE DUE ON THE BONDS. THE BONDS AND THE OBLIGATION TO PAY PRINCIPAL THEREOF AND INTEREST THEREON AND ANY REDEMPTION PREMIUM WITH RESPECT THERETO, DO NOT CONSTITUTE AN INDEBTEDNESS OR AN OBLIGATION OF THE AUTHORITY OR ABAG, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION, OR A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF ANY OF THEM, BUT SHALL BE PAYABLE SOLELY FROM THE REVENUES DESCRIBED HEREIN. NO OWNER OF THE BONDS SHALL HAVE THE RIGHT TO COMPEL THE EXERCISE OF THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO PAY ANY PRINCIPAL OR

PREMIUM, IF ANY, OR INTEREST ON THE BONDS. NEITHER THE AUTHORITY NOR ABAG HAS ANY TAXING POWER.

CALIFORNIA HEALTH FACILITY CONSTRUCTION LOAN INSURANCE PROGRAM

Description

The Corporation has received a conditional commitment from the Office for insurance of the Authority's payment of the principal of and the interest on the Bonds. The California Health Facility Construction Loan Insurance Program (the "Program") is authorized by Article XVI, Section 4 of the California Constitution and is provided for in the Insurance Law. The Insurance Program is operated by the Office, which has adopted regulations implementing the Insurance Program. Under the Insurance Law, the Office is currently authorized to insure health facility construction, improvement and expansion loans, as specified in the Insurance Law, to a total of not more than $3,000,000,000. The insurance of payment of the principal of and interest on the Bonds is evidenced by the Contract of Insurance and the Regulatory Agreement, both of which will be entered into by the Office, the Authority and the Corporation, concurrently with the execution and delivery of the Bonds. The Regulatory Agreement sets out the financial covenants of the Corporation relating to, among other things, the maintenance of specified debt service coverage levels and the limitations on incurrence of additional indebtedness or disposition of assets by the Corporation. Prospective holders of the Bonds should note that the provisions of the Regulatory Agreement may be amended with the consent of the Office without the necessity of obtaining the consent of the Holders of the Bonds or the holders of Parity Debt. See "CALIFORNIA HEALTH FACILITY CONSTRUCTION LOAN INSURANCE PROGRAM—Rights of the Office Under the Regulatory Agreement" herein and APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—Regulatory Agreement."

The full amount of the principal of and interest, but no redemption premium, if any, on the Bonds is insured under the Program and is backed by the full faith and credit of the State. Reference is made to the official statement relating to the general obligation bonds most recently issued by the State, annual reports filed by the State with nationally recognized municipal securities information repositories and relating to the State's general obligation bonds for financial information relating to the general fund of the State and the biennial Actuarial and Asset Allocation Study for the Program, available upon request from the Office.

Insurance Law section 129050, subsection (a) requires that a loan must be secured by a first mortgage, first deed of trust, or first priority lien on an interest of the borrower in real property and any other security agreement as the Office may require. For this purpose, the Corporation grants a security interest in the Gross Revenue Fund and all of the Gross Revenues under the Loan Agreement and enters into the Deed of Trust. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS—Pledge of Gross Revenues" and "—Deed of Trust" herein and APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—Deed of Trust."

The Program is financed by an application fee of 0.5 percent of the loan applied for, but not to exceed $500 (Insurance Law section 129090), an inspection fee not in excess of 0.4 percent of the loan insured (Insurance Law section 129035), and an insurance premium due in full at closing not in excess of 3.0 percent of the total amount of principal and interest payable over the term of the loan (Insurance Law section 129040). The fees and premiums charged are deposited in the Health Facility Construction Loan Insurance Fund (the "HFCLIF") that is established by the Insurance Law (sections 129010, subsection (g) and 129200) and used to defray administrative expenses of the Program, to cure defaults on loans and to pay principal of and interest on debentures issued by the Treasurer of the State in payment of insurance claims.

Contestability

Under Insurance Law section 129110, the Contract of Insurance is incontestable from the date of execution thereof, except in case of fraud or misrepresentation on the part of the lender.

Cancellation

The Insurance Law and the Contract of Insurance impose certain continuing obligations on the Corporation as a condition of insuring the Bonds but specify that the remedies for breach of these obligations shall not include withdrawal or cancellation of the insurance.

The insurance provided by the Contract of Insurance will terminate in the event that the Bonds are defeased pursuant to the Indenture.

Benefits Upon Default

If there is an event of default as specified under the Indenture ("Event of Default"), the Trustee must notify the Office. The Trustee also must notify the Office if thirty days prior to an interest or principal payment date there are not sufficient available moneys held by the Trustee in the Revenue Fund (other than in the Bond Reserve Account) to make the next payment of principal or interest on the Bonds.

Pursuant to the Regulatory Agreement, if there is an Event of Default and the Trustee has notified the Office that available moneys in the Principal and Interest Accounts will be insufficient to pay in full the next succeeding payment of interest and/or principal when due, the Office shall cause a sufficient amount to be deposited in the Principal Account and/or Interest Account at least three Business Days prior to the date on which such payment is due. The money will come from the Bond Reserve Account held under the Indenture or from the HFCLIF. The obligation of the Corporation to repay any money advanced from the HFCLIF is secured by the Deed of Trust.

Following an Event of Default, the Office may either (i) continue to approve such transfers or make such payments described in the preceding paragraph as are necessary to provide for the timely payment of the principal of and interest on the Bonds, (ii) accept title to the Facilities from the Trustee upon foreclosure pursuant to the Deed of Trust or otherwise, (iii) accept an assignment of the security interest created under the Deed of Trust and of all claims under the Loan Agreement, or (iv) instruct the Trustee to declare the principal of all Bonds then Outstanding and the interest due thereon to be immediately due and payable and make such payment from the HFCLIF. The Regulatory Agreement provides that, upon receipt by the Office of title to the Facilities or assignment of the security interest in the Deed of Trust and upon surrender of the Bonds to the Office, the Office shall request the State Treasurer to issue to the Trustee for the benefit of the Holders of the Bonds so surrendered debentures in an amount equal to the total face value of the outstanding principal of and accrued but unpaid interest on the Bonds, for the term and at the interest rate payable on the Bonds.

While the Office has not requested the issuance of and the State Treasurer has not issued any such debentures and while definitive procedures for their issuance have not been established, including procedures covering matters such as compliance with the provisions of the Code and the Treasury Regulations promulgated thereunder, the Office has all necessary power to establish such procedures, and it is expected that such procedures would be established and that interest on such debentures would not be includable in the gross income of the Holders of the Bonds for purposes of federal income taxation and would be exempt under the law as in effect on the date hereof from State personal income taxes. Upon the occurrence of certain Events of Default under the Indenture, there is the possibility that the interest on the Bonds could become subject to federal income taxation. The Indenture provides that there shall be no acceleration of the principal of and interest on the Bonds upon the occurrence of an Event of Default under the Indenture without the consent of the Office. If the Bonds were declared taxable by the Internal Revenue Service (the "IRS") or another appropriate authority, thereby resulting in an Event of Default under the Indenture, and if the Office did not consent to an acceleration, the Bondholders would continue to receive interest payments, but those interest payments would not be excludable from gross income for federal income tax purposes. See APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—Indenture—Events of Default; Remedies on Default."

Under the Insurance Law, payments of principal of and interest on the Bonds or payments on the debentures would be made by the Office from the HFCLIF.

At the request of the Office, Oliver Wyman ("Oliver Wyman") completed a study in February of 2009 (the "2008 Actuarial Study") to evaluate, among other matters, (1) the reserve sufficiency of the HFCLIF as of June 30, 2008; and (2) the risk to the State General Fund from the Program. In the 2008 Actuarial study, Oliver Wyman concluded that the HFCLIF, as of June 30, 2008, which at that time had approximately $187 million, appeared to be sufficient, assuming "normal and expected" conditions and that the HFCLIF should maintain a positive balance over a period of 30+ years. Even assuming abnormal and unexpected events, Oliver Wyman found that HFCLIF reserves would protect against any General Fund losses for 14 years. As of October 31, 2009, the principal amount of loans insured under the Program was approximately $1,670,678,493 and the cash balance of the HFCLIF was approximately $187,382,700. A copy of the 2008 Actuarial Study is available upon request to: Office of Statewide Health Planning and Development, Cal-Mortgage Loan Insurance Division, 400 R Street, Room 470, Sacramento, CA 95811, Telephone: (916) 319-8800; email: cminsure@oshpd.ca.gov.

The moneys in the HFCLIF are continuously appropriated to pay obligations insured by the Office under the Insurance Law. Insurance Law section 129215 states: "The Health Facility Construction Loan Insurance Fund, established pursuant to Section 129200, shall be a trust fund and neither the fund nor the interest or other earnings generated by the fund shall be used for any purpose other than those purposes authorized by this chapter."

In the event that the Office fails to make any payments when due, the State Treasurer will be obligated to pay such amounts authorized to be appropriated to the holders of the debentures. As stated in Insurance Law section 129160, subsection (b), "In the event of a default, any debenture issued under this article shall be paid on a par with general obligation bonds issued by the state."

FOR A FURTHER DESCRIPTION OF THE CONTRACT OF INSURANCE, SEE APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

Bankruptcy

In the event of bankruptcy of the Corporation, the rights and remedies of the Holders of the Bonds are subject to various provisions of the federal Bankruptcy Code. If the Corporation were to file a petition in bankruptcy, payments made by the Corporation during the 90-day (or perhaps one-year) period immediately preceding the filing of such petition may be voidable as preferential transfers to the extent such payments allow the recipients thereof to receive more than they would have received in the event of the Corporation's liquidation. Security interests and other liens granted to a Trustee and perfected during such preference period also may be voided as preferential transfers to the extent such security interest or other lien secures obligations that arose prior to the date of such perfection. Such a bankruptcy filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against the Corporation and its property and as an automatic stay of any act or proceeding to enforce a lien upon or to otherwise exercise control over its property as well as various other actions to enforce, maintain or enhance the rights of a Trustee. If the bankruptcy court so ordered, the property of the Corporation, including accounts receivable and proceeds thereof, could be used for the financial rehabilitation of the Corporation despite any security interest of a Trustee therein. The rights of the Trustee to enforce its security interests and other liens it may have could be delayed during the pendency of the rehabilitation proceeding.

The Corporation could file a plan for the adjustment of its debts in any such proceeding, which plan could include provisions modifying or altering the rights of creditors generally or any class of them, secured or unsecured. The plan, when confirmed by a court, binds all creditors who had notice or knowledge of the plan and, with certain exceptions, discharges all claims against the debtor to the extent provided for in the plan. No plan may be confirmed unless certain conditions are met, among which are conditions that the plan be feasible and that it shall have been accepted by each class of claims impaired thereunder. Each class of claims has accepted the plan if at least two thirds in dollar amount and more than one-half in number of the class cast votes in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

Pursuant to the Indenture, the Office shall have the right to vote in the place and stead of all Holders of Bonds with respect to any plan of reorganization on any agreement for composition of creditors and on any assignment for the benefit of creditors.

In the event of bankruptcy of the Corporation, there is no assurance that certain covenants, including tax covenants, contained in the Loan Agreement or other documents would survive. Accordingly, a bankruptcy trustee could take action that would adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes.

Rights of the Office Under the Regulatory Agreement

The Regulatory Agreement grants the Office extensive rights, including the right to attend and participate in all meetings of the Corporation's Board of Directors. Additionally, the Regulatory Agreement prohibits the Corporation, without first obtaining the consent of the Office, from:

1. affiliating with, merging into, or consolidating with any individual, company, organization, partnership or other legal entity;

2. transferring cash or cash equivalents to any entity, including but not limited to a subsidiary or an affiliate of the Corporation, without first satisfying certain financial covenants;

3. selling, leasing, subleasing or otherwise disposing of all or portions of the real property subject to the Deed of Trust and, except in the ordinary course of business, buildings, improvements and tangible personal property located on such property;

4. acquiring by gift, purchase, construction, merger or consolidation any property or equipment, except in the ordinary course of business; and

5. entering into or terminating a contract to manage or operate all or substantially all of the Facilities with any individual, company, organization, partnership or other legal entity, including the

Corporation's chief executive officer, chief financial officer and chief operations officer or all of those people who otherwise manage or operate all or substantially all of the Facilities (the "Management Agent").

Additionally, upon the occurrence of an event of default under the Regulatory Agreement, the Deed of Trust, the Indenture or the Loan Agreement, the Office may assume or direct managerial or financial control over the Corporation. Under such circumstances, the Office may terminate and replace the existing Management Agent with a new Management Agent selected by the Office and may remove and replace a majority of the Corporation's Board of Directors. See APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Regulatory Agreement."

PLAN OF FINANCING

The proceeds from the sale of the Bonds will be used to (1) refund the Series 2007 Bonds, (2) fund a termination payment due in connection with a certain swap agreement executed in connection with the Series 2007 Bonds, (3) finance the Project, (4) fund a Bond Reserve Account and (5) pay costs of issuance, including the insurance premium. See "ESTIMATED SOURCES AND USES OF FUNDS."

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds related to the Bonds.

Estimated Sources of Funds	
Principal Amount of Bonds	$ 54,310,000
Net Original Issue Discount	(295,540)
Prior Bond Funds	3,507,981
Other Funds	49,000
Total	$ 57,571,441
Estimated Uses of Funds	
Future Capital Expenditures	$ 3,874,083
Refund 2007 Bonds	43,822,594
Fund Termination Payment(1)	2,965,000
Debt Service Reserve Account	3,986,500
Bond Insurance Premium	2,196,012
Costs of Issuance(2)	727,252
Total	$57,571,441

(1) Includes the swap advisor fee paid in connection with the termination of the swap agreement.

(2) Includes legal, printing, rating agency and Authority's fees and expenses, the underwriter's discount and other miscellaneous issuance costs.

FEASIBILITY STUDY

Hendrickson Consulting (the "Feasibility Consultant"), completed a financial feasibility report dated September 21, 2009 (the "Feasibility Study"). See APPENDIX G – "FEASIBILITY STUDY." The Feasibility Study contains a review and analysis of the Project, financial aspects of the Corporation, as well as related matters. The forecasted financial results for the Corporation for the five-year period ending July 31, 2014, also are included in the Feasibility Study. Certain information concerning the Project and the Corporation contained in this Official Statement has been excerpted from the Feasibility

Study. The estimates, opinions and conclusions expressed in the Feasibility Study are based upon certain assumptions, calculations and qualifications set forth therein, and the Feasibility Study should be read in its entirety. Among these assumptions were an issue size of $54,300,000, with an approximate average coupon of 6.125% and various maturity dates. In addition, other assumptions contained in the Feasibility Study may vary significantly from actual future conditions due to unanticipated events and circumstances, and there can be no assurance that the assumed conditions will, in fact, occur. To the extent that actual future conditions vary from those assumed in the Feasibility Study, the actual results will vary from those contained in the Feasibility Study. The forecasted results cannot be assured. THE FEASIBILITY STUDY IS CONTAINED IN APPENDIX G HERETO AND SHOULD BE READ IN ITS ENTIRETY FOR A FULL UNDERSTANDING OF THE ASSUMPTIONS AND RATIONALE UNDERLYING THE FORECASTS AND CONCLUSIONS CONTAINED THEREIN.

CONTINUING DISCLOSURE

Because the Bonds are limited obligations of the Authority, payable solely from amounts received from the Corporation, financial or operating data concerning the Authority is not material to an evaluation of the offering of the Bonds or to any decision to purchase, hold or sell the Bonds. Accordingly, the Authority is not providing any such information. The Corporation has undertaken all responsibilities for any continuing disclosure to Holders of the Bonds, as described below, and the Authority shall have no liability to the Holders of the Bonds or any other person with respect to Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 by the Securities and Exchange Commission (the "Rule").

The Corporation has covenanted for the benefit of Holders and Beneficial Owners of the Bonds to provide to the Trustee, as dissemination agent, for dissemination (i) certain financial information and operating data relating to the Corporation by not later than 150 days following the end of the Corporation's fiscal year (which currently is July 31) (the "Annual Report"), commencing with the report for the 2010 Fiscal Year, (ii) unaudited financial statements including a balance sheet and statement of operations and changes in net assets relating to the Corporation by not later than 45 days after the end of the applicable quarterly fiscal period, and (iii) notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the dissemination agent on behalf of the Corporation with the Municipal Securities Rulemaking Board via its Electronic Municipal Market Access (EMMA) system. The notices of material events will be filed by the dissemination agent on behalf of the Corporation with EMMA. See APPENDIX D – "FORM OF CONTINUING DISCLOSURE AGREEMENT." These covenants have been made to assist the Underwriter in complying with the Rule. The Corporation has never failed to comply with an undertaking pursuant to the Rule.

For a more complete description of the content, time and place of filing of an annual report, the circumstances under which provisions of the Continuing Disclosure Agreement may be amended or waived, when Beneficial Owners of Bonds are entitled to take action to enforce the Continuing Disclosure Agreement, limitations on enforcement of the Continuing Disclosure Agreement, and other provisions of the Continuing Disclosure Agreement, see APPENDIX D – "FORM OF CONTINUING DISCLOSURE AGREEMENT."

BONDHOLDERS' RISKS

The purchase of the Bonds involves certain investment risks that are discussed throughout this Official Statement. Accordingly, each prospective purchaser of the Bonds should make an independent evaluation of all of the information presented in this Official Statement in order to make an informed investment decision. This section focuses primarily on the general risks associated with retirement facility operations, whereas Appendix A describes the Corporation specifically. These should be read together.

General

As described herein, the Bonds are limited obligations of the Authority, secured under the provisions of the Indenture and the Loan Agreement, as described herein, and will be payable from Loan Repayments made by the Corporation under the Loan Agreement and from certain funds held under the Indenture. The obligations of the Corporation under the Loan Agreement are secured by a pledge of the Corporation's Gross Revenues and by a lien on the Facilities, subject to certain Permitted Encumbrances, pursuant to the Deed of Trust. Even though the Corporation has covenanted in the Regulatory Agreement to maintain certain debt coverage, there can be no assurance that income and receipts will be realized by the Corporation in amounts sufficient to make such Loan Repayments under the Loan Agreement and thus sufficient to pay the principal or premium, if any, or interest on the Bonds when due. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

For information concerning the Corporation, its operations and management, see APPENDIX A – "INFORMATION CONCERNING CASA DE LAS CAMPANAS, INC." See also APPENDIX B – "AUDITED FINANCIAL STATEMENTS OF CASA DE LAS CAMPANAS, INC."

Tax-Exempt Status

Tax-Exempt Status of Interest on the Bonds. The Internal Revenue Code of 1986, as amended (the "Code") imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of Bond proceeds, limitations on the investment earnings of the Bond proceeds prior to expenditure, a requirement that certain investment earnings on Bond proceeds be paid periodically to the United States and a requirement that the Authority file an information report with the Internal Revenue Service (the "IRS"). The Authority and the Corporation have covenanted in certain of the documents referred to herein that they will comply with such requirements. Failure by the Corporation to comply with the requirements in the Code and related regulations, rulings and policies may result in the treatment of interest on the Bonds as taxable, retroactively to the date of issuance of the Bonds. The Bonds are not subject to mandatory redemption and the rate of interest on the Bonds is not subject to adjustment if the interest on the Bonds is determined to be included in gross income for the purposes of federal income taxation.

The IRS Tax Exempt and Government Entities Division (the "TE/GE Division") has a subdivision that is specifically devoted to tax-exempt bond compliance and that has been active in auditing tax-exempt bond transactions such as the Bonds. The Corporation has not sought to obtain a private letter ruling from the IRS with respect to the Bonds, and the opinion of Bond Counsel is not binding on the IRS. An IRS examination of the Bonds could materially adversely affect the market value of the Bonds. See "TAX MATTERS."

Tax-Exempt Status of the Corporation. The tax-exempt status of the interest on the Bonds presently depends upon the maintenance by the Corporation of its status as an organization described in Section 501(c)(3) of the Code. The maintenance of such status is contingent upon compliance with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities, including their operation for charitable or public purposes and their avoidance of transactions which may cause their earnings or assets to inure to the benefit of private individuals.

In recent years, the IRS has increased the frequency and scope of its audit and other enforcement activity regarding tax-exempt organizations. As a result, tax-exempt organizations are increasingly subject to a greater degree of scrutiny. The primary penalty available to the IRS under the Code with respect to a tax-exempt entity engaged in unlawful, private benefit is the revocation of tax-exempt status. Although the IRS has not frequently revoked the 501(c)(3) tax-exempt status of nonprofit corporations, it could do so in the future. Loss of tax-exempt status by the Corporation could potentially result in loss of tax exemption of interest on the Bonds and defaults in covenants regarding the Bonds would likely be triggered.

Less onerous sanctions have been enacted which focus enforcement on private persons who transact business with a tax-exempt organization rather than the tax-exempt organization, but these sanctions do not replace the other remedies available to the IRS as mentioned above.

The Corporation believes it has properly complied with the above-described tax laws. Nevertheless, because of the complexity of such tax laws and the presence of issues about which reasonable persons can differ, audits by the IRS could result in additional taxes, interest and penalties being incurred by the Corporation and could have material adverse consequences on the financial condition of the Corporation. Moreover, as described above, any such audit ultimately could affect the tax-exempt status of the Corporation as well as the exclusion from gross income for federal income tax purposes of the interest payable on the Bonds. See "TAX MATTERS."

Unrelated Business Income. In recent years, the IRS and state, county and local taxing authorities have been undertaking audits and reviews of the operations of tax-exempt organizations with respect to their exempt activities and the generation of unrelated business taxable income ("UBTI"). The Corporation may participate in activities which generate UBTI. The Corporation believes it has properly accounted for and reported UBTI; nevertheless, an investigation or audit could lead to a challenge which could result in taxes, interest and penalties with respect to unreported UBTI and in some cases could ultimately affect the tax-exempt status of the Corporation as well as the exclusion from gross income for federal income tax purposes of the interest on the Bonds.

State Income Tax Exemption. The State has not been as active as the IRS in scrutinizing the income tax exemption of organizations. However, it is likely that the loss by the Corporation of federal tax exemption would also trigger a challenge to the State tax exemption of the Corporation. Depending on the circumstances, such an event could be adverse and material to the Corporation and to the market value of the Bonds.

Exemption from Property Taxes. In recent years, State, county and local taxing authorities have been undertaking audits and reviews of the operations of tax-exempt corporations with respect to their real property tax exemptions. Management of the Corporation believes that its facilities are and will continue to be exempt from those California real property taxes for which tax-exempt organizations are eligible; however, such exemptions may not be available to the Corporation in the future and any loss of exemption could have a material adverse effect on the financial condition of the Corporation.

Impact of Disruptions in the Credit Markets and General Economic Factors

Since 2008, the financial sector of the economies of the United States and other countries has experienced severe disruptions, prompting a number of banks and other financial institutions to seek additional capital, including capital provided through the federal government, to merge, and, in some cases, to cease operations. These events collectively have led to significant reductions in lending capacity and extension of credit, erosion of investor confidence in the financial sector, and historically aberrant fluctuations in interest rates. This disruption of the credit and financial markets has led to volatility in the securities markets, significant losses in investment portfolios, increased business failures and consumer and business bankruptcies.

In 2008 and 2009, federal legislation was enacted and regulatory and other initiatives were implemented by agencies of the federal government and the Federal Reserve Board with the objective of stabilizing the financial markets by enhancing liquidity, providing additional capital to the financial sector and improving the performance and efficiency of credit markets. Other legislation is pending or under active consideration by Congress, additional regulatory action is being considered by various federal agencies and the Federal Reserve Board, and foreign governments are implementing actions, all of which are intended to continue and strengthen efforts to restore the domestic and global credit markets. It is unclear whether these legislative, regulatory and other governmental actions will have the positive effect that is intended.

The healthcare and senior living sectors have been materially adversely affected by these developments. The consequences of these developments have generally included realized and unrealized investment portfolio loses, reduced investment income, limitations on access to the credit markets, difficulties in extending existing or obtaining new liquidity facilities, difficulties in remarketing revenue bonds subject to tender, requiring the expenditure of internal liquidity to fund tenders of revenue bonds, and increased borrowing costs.

President Obama signed into law the American Recovery and Reinvestment Act of 2009 (the "ARRA"). The ARRA includes several provisions that are intended to provide financial relief to the healthcare sector, including an increase through December 31, 2010 in federal payments to states to fund the Medicaid program, a requirement that states promptly reimburse healthcare providers, and a subsidy to the recently unemployed for health insurance premium costs. The Federal Reserve Board and other agencies of the federal government and foreign governments have taken various actions that are designed to enhance liquidity, improve the performance and efficiency of credit markets and generally stabilize securities markets. There can be no assurance that these actions will be effective.

The Corporation has significant holdings in a diversified portfolio of investments. Market fluctuations have affected and will continue to affect materially the value of those investments and those fluctuations may be and historically have been material. The market disruption has exacerbated the market fluctuations and has negatively affected the investment performance of securities in the Corporation's portfolio. See APPENDIX A – "INFORMATION CONCERNING THE CASA DE LAS CAMPANAS, INC.—Management's Discussion of Financial Performance."

Some of the challenges caused by the disruptions in the credit markets are further highlighted below. The reader is advised to refer to Appendix A in this Official Statement for specific information about the effects of these factors on the Corporation's most recent financial performance and its financial condition. These and other risks may adversely affect the Corporation and jeopardize its ability to generate revenues, make payments under the Loan Agreement and, consequently, make payments on the Bonds. There can be no assurance that the financial condition of the Corporation and/or the utilization of its facilities will not be adversely affected by any of these circumstances.

State Bond Insurance

The principal and interest payments on the Bonds will be insured by the Office, which is an instrumentality of the State. Accordingly, any decline in the State's fiscal condition could adversely affect the State's ability to make payment in the event of a claim on such insurance. For a full explanation of the obligations of the Office and the State with regard to such insurance, see the Insurance Law as set forth in California Health and Safety code, Chapter 1 of Part 6 of Division 107, as the same may be amended from time to time.

Information about the State budget and State spending is available at various State-maintained websites. Text of the budget may be found at the website of the Department of Finance, www.dof.ca.gov, under the heading "California Budget." An impartial analysis of the budget is posted by the Office of the Legislative Analyst at www.lao.ca.gov. In addition, various State official statement for its various debt obligations, many of which contain a summary of the current and past State budgets, may be found at the website of the State Treasurer, www.treasurer.ca.gov. All of such websites are provided for general information purposes only and the material on such sites is in no way incorporated into this Official Statement.

Over certain time periods, deterioration in the State's budget and cash situation, such as the current period, may cause the nationally recognized rating services to reduce the State's credit ratings. There can be no assurance that such ratings will continue at current levels for any given period of time or that such ratings will not in the future be revised or withdrawn. The rating of the Bonds is based upon the insurance provided by the Office. Any decline in the State's fiscal condition could adversely affect the rating on the Bonds. See "CALIFORNIA HEALTH FACILITY CONSTRUCTION LOAN INSURANCE PROGRAM" and "RATINGS" in this Official Statement.

General Risks of Long Term Care Facilities

There are many diverse factors not within the Corporation's control that have a substantial bearing on the risks generally incident to the operation of its facilities. These factors include generally imposed fiscal policies, adverse use of adjacent or neighboring real estate, the ability to maintain the facilities, community acceptance of the facilities, changes in demand for the facilities, changes in the number of competing facilities, changes in the costs of operation of the facilities, changes in the laws of the State affecting long term care programs, the limited income of the elderly, changes in the long term care and health care industries, difficulties in or restrictions on the Corporation's ability to raise rates charged, general economic conditions and the availability of working capital. In recent years, a significant number of long term care facilities throughout the United States have defaulted on various financing obligations or otherwise have failed to perform as originally expected. There can be no assurance the Corporation's facilities will not experience one or more of the adverse factors that caused other facilities to fail. Many other factors may adversely affect the operation of facilities like the Corporation's facilities and cannot be determined at this time.

Sale of Personal Residences

It is anticipated that a number of prospective residents of the Corporation's facilities will be required to sell their current homes to pay the entrance fee prior to occupancy or to meet other financial obligations under residency agreements. If prospective residents encounter difficulties in selling their current homes due to local or national economic conditions affecting the sale of residential real estate, such prospective residents may not have sufficient funds to pay the entrance fee or to meet other financial obligations under their residency agreements, thereby causing a delay in scheduled occupancy of the Corporation's facilities or the remarketing of vacated units, either of which could have an adverse impact on the revenues of the Corporation.

Nature of the Income of the Elderly

A large percentage of the monthly income of the residents of the Corporation's facilities will be fixed income derived from pensions and Social Security. In addition, some residents will be liquidating assets in order to pay the monthly and other fees. If, due to inflation or otherwise, substantial increases in fees are required to cover increases in operating costs, wages, benefits and other expenses, many residents may have difficulty paying or may be unable to pay such increased fees. The Corporation's inability to collect from residents the full amount of their payment obligations may jeopardize the ability of the Corporation to pay amounts due under the Loan Agreement.

Failure to Achieve and Maintain Sufficient Occupancy; Uncertainty of Revenues

The ability of the Corporation to generate sufficient revenues depends in large part upon its ability to attract sufficient numbers of residents to its facilities in order to achieve and then to maintain substantial occupancy throughout the term of the Bonds. The ability of the Corporation to achieve, and then to maintain, substantial occupancy depends to some extent on factors outside its control.

The success of the Corporation's facilities is dependent on the maintenance of high future occupancy levels at its facilities by eligible residents who will be able to pay the fees charged, the capabilities of the management of the facilities and future economic and other conditions which are unpredictable, including the availability of Medicare. See "BONDHOLDERS' RISKS – Present and Prospective Federal and State Regulation." Any of these factors may affect revenues and payment of debt service on the Bonds. No representation or assurance can be made that revenues will be realized by the facilities in amounts sufficient to make the required payments on the Bonds.

Existing Operations and Possible Increased Competition

The revenues and expenses associated with the operation of the Corporation's existing nursing care and other residential facilities will be affected by further events and conditions relating generally to, among other things, government regulations, third-party reimbursement programs, demand for skilled nursing home and assisted living and residential services, the ability of the Corporation to provide the services required by residents, economic developments in the affected service areas, competition, rates and costs. The facilities owned by the Corporation are subject to substantial competition from facilities providing similar or comparable services. Such competition likely will inhibit the extent to which the Corporation will be able to raise charges and maintain or increase admissions. There can be no assurance that additional competing facilities will not be constructed in the future.

Utilization Demand

Several factors could, if implemented, affect demand for services offered at the facilities of the Corporation, including: (i) efforts by insurers and governmental agencies to reduce utilization of nursing home and long-term care facilities by such means as preventive medicine and home health care programs; (ii) advances in scientific and medical technology; and (iii) increased or more effective competition from skilled nursing homes, assisted living facilities and long-term care facilities now or hereafter located in the service area of the Corporation.

Nature of Facilities

The Corporation's facilities are not comprised of general purpose buildings and generally would not be suitable for industrial, other residential or commercial use. Consequently, it could be difficult to find a buyer or lessee for such facilities and, upon any default, the Trustee may not realize the amount of the outstanding Bonds or any other indebtedness outstanding from the sale or lease of such facilities if it were necessary to proceed against such facilities, pursuant to a judgment, if any, against the Corporation, including in the event of foreclosure under the Deed of Trust.

Present and Prospective Federal and State Regulation

The operations of the Corporation, like other health care facilities throughout the country, will be affected on a day-to-day basis by numerous legislative, regulatory and industry-imposed operations and financial requirements which are administered by a variety of federal and state governmental agencies as well as by self-regulatory associations and commercial medical insurance reimbursement programs. It is impossible, however, to predict the effect of any such legislation and regulation on the operations or financial condition of the Corporation's facilities.

Nursing care facilities, including those of the Corporation, are subject to numerous licensing, certification, accreditation, and other governmental requirements. These include, but are not limited to, requirements relating to Medicare participation and payment, requirements relating to state licensing agencies, private payors and accreditation organizations and certificate of need approval by state agencies of certain capital expenditures. Sheltered and assisted living facilities, including those of the Corporation, are also subject to licensing requirements. Renewal and continuance of certain of these licenses, certifications, approvals and accreditations are based upon inspections, surveys, audits, investigations or other review, some of which may require or include affirmative action or response by the Corporation. An adverse determination could result in a loss, fine or reduction in the Corporation's scope of licensure, certification or accreditation, could affect the ability to undertake certain expenditures or could reduce the payment received or require the repayment of the amounts previously remitted. The Corporation currently anticipates no difficulty in renewing or continuing currently held licenses, certifications and accreditations.

Medicare Program

Medicare is the commonly used name for a federal reimbursement or payment program governed by certain provisions of the federal Social Security Act. Medicare provides certain health care benefits to beneficiaries who are 65 years of age or older, disabled or qualify for the End Stage Renal Disease Program. Medicare Part A covers inpatient hospital services and certain other services, and Medicare Part B covers physician services, medical supplies and durable medical equipment.

Medicare. Health care providers, including the Corporation, may participate in the Medicare program subject to certain conditions of participation and acceptance of a provider agreement by the federal Secretary of Health and Human Services ("HHS"). Only covered services, upon the satisfaction of certain criteria, are eligible for Medicare reimbursement. Medicare Part A reimburses for certain post-hospital inpatient skilled nursing and rehabilitation care for up to 100 days during the same spell of illness. The federal government has implemented a Prospective Payment System ("PPS") for Medicare reimbursement, to shift more of the financial risk of the cost of long-term care from the federal government to the provider. The prior system was a retrospective cost-based system. The PPS is based on historical costs and resource utilization of the residents. Geographic variations in labor costs are also considered. The PPS applies to cost reporting periods beginning on or after July 1, 1998.

Medicare Anti-Fraud and Abuse Provisions. The Medicare anti-fraud and abuse provisions of the Social Security Act (the "Anti-Kickback Law") make it a felony, subject to certain exceptions, to engage in illegal remuneration arrangements with physicians and other health care providers for the referral of Medicare beneficiaries. Violation of these provisions constitutes a felony and may result in imprisonment for up to five years and fines of up to $25,000. In addition, HHS has the authority to impose civil assessments and fines, and may exclude providers engaged in prohibited activities from participation in the Medicare program, as well as certain other state and federal health care programs. The Secretary of HHS is required to exclude from such programs any providers convicted of a criminal offense relating to the delivery of Medicare services, for not less than five years. Exclusion from these programs would have a material adverse effect on the operations and financial condition of the Corporation. The scope of prohibited payments in the Anti-Kickback Law is broad. HHS has published regulations which describe certain arrangements that will not be deemed to constitute violations of the Anti-Kickback Law. The safe harbors described in the regulations are narrow and do not cover a wide range of economic relationships which many hospitals, physicians and other health care providers consider to be legitimate business arrangements not prohibited by the statute. Because the regulations describe safe harbors and do not purport to describe comprehensively all lawful or unlawful economic arrangements or other relationships between health care providers and referral sources, health care providers having these arrangements or relationships may be required to alter them in order to ensure compliance with the Anti-Kickback Law.

Management of the Corporation believes that it is currently in material compliance with the Anti-Kickback Law. However, in light of the narrowness of the safe harbor regulations and the scarcity of case law interpreting the Anti-Kickback Law, there can be no assurances that the Corporation will not be found to have violated the Anti-Kickback Law, and, if so, whether any sanction imposed would have a material adverse effect on the operations of facilities owned by the Corporation.

Restrictions on Referrals. Current federal law (known as the "Stark" law provisions) prohibits providers of "designated health services" from billing Medicare when the patient is referred by a physician or an immediate family member with a financial relationship with the provider, with limited exceptions. "Designated health services" include the following: clinical laboratory services; physical therapy services; occupational therapy services; radiology services, including magnetic resonance imaging, computerized axial tomography scans, and ultrasound services; radiation therapy services and supplies; durable medical equipment and services; parenteral and enteral nutrients, equipment and supplies; prosthetics, orthotics, and prosthetic devices and supplies; home health services; outpatient prescription drugs; and inpatient and outpatient hospital services. The sanctions under the Stark law include denial and refund of payments, civil monetary penalties and exclusions from the Medicare program.

Management of the Corporation believes that they currently are in material compliance with the Stark provisions. However, in light of the scarcity of case law interpreting the Stark provisions, there can be no assurances that the Corporation will not be found to have violated the Stark provisions, and if so, whether any sanction imposed would have a material adverse effect on the operations or the financial condition of the Corporation as a whole.

False Claims Act/Qui Tam Actions. Medicare requires that extensive financial information be reported on a periodic basis and in a specific format or content. These requirements are numerous, technical and complex and may not be fully understood or implemented by billing or reporting personnel. With respect to certain types of required information, the False Claims Act and the Social Security Act may be violated by mere negligence or recklessness in the submission of information to the government even without any intent to defraud. New billing systems, new medical procedures and procedures for which there is not clear guidance may all result in liability. The penalties for violation include criminal or civil liability and may include, for serious or repeated violations, exclusion from participation in the Medicare program.

The False Claims Act provides that an individual may bring a civil action for a violation of the Act. These actions are referred to as Qui Tam actions. In this way, an employee would be able to sue on behalf of the U.S. government if he/she believes that the healthcare entity has committed fraud. If the government proceeds with an action brought by this individual, then he/she could receive as much as 25% of any money recovered. The potential exists that a Qui Tam action could be brought against the Corporation or any other Corporation.

State Reimbursement and Regulatory Issues — California Licensure and Certificate of Need

Skilled Nursing Facilities. SNFs provide skilled nursing care and supportive care to patients whose primary need is for skilled nursing care on an extended basis. SNFs in California are licensed and inspected by the State Department of Health Services. Operational requirements for SNFs include the maintenance of a theft and loss program and transfer policies and protocols, the provision of notice to patients of scheduled room rate increases, and compliance with regulations regarding, among other things, staffing minimums and physical plant standards. In addition, SNFs must maintain an approved personnel certification and training program meeting standards established by the State Department of Health Services and must provide an activity program to facility patients.

The State Department of Health Services may suspend or revoke a SNF's license on the grounds of: (a) violation of any applicable statute or regulation with respect to SNFs; (b) aiding, abetting or permitting the violation of any such applicable law; (c) conduct inimical to the public health, morals, welfare or safety of California residents in the maintenance and operation of the premises or services for which a SNF license is issued; or (d) conviction of the licensee at any time during licensure of a crime involving a violation of any law which is substantially related to the qualifications or duties of the licensee or which is substantially related to the functions of the business for which the license was issued. Further, whenever circumstances exist indicating that continued management of a SNF by the current licensee would present a substantial probability or imminent danger of serious physical harm or death to facility patients or there exists in the SNF a condition in substantial violation of any applicable statute or regulation with respect to SNFs, or the SNF exhibits a pattern or practice of habitual violation of any such applicable law, or the SNF is closing or intends to terminate operation as a licensed SNF and adequate arrangements for patient relocation have not been made at least 30 days prior to the closing or termination, the State Department of Health Services may petition the Superior Court for the county in which the SNF is located for an order appointing a receiver to temporarily operate the SNF.

Residential Care Facilities for the Elderly. Residential care facilities for the elderly ("RCFEs") are licensed housing arrangements where varying levels and intensities of care and supervision, protective supervision, or personal care are provided to residents based upon their varying needs. Such facilities generally provide a range of services that stop just short of medical care, including meals, shelter, laundry, transportation, supervision with medications and limited assistance with the activities of daily living. RCFEs must comply with certain conditions of licensure and operation, as required and enforced by the State Department of Social Services, including, among other things, maintenance of a theft and loss program, provision of certain enumerated basic services and preparation of resident records.

A RCFE may have its license suspended or revoked for the following reasons: (a) violation of any applicable statute or regulation with respect to RCFEs; (b) aiding, abetting or permitting the violation of any such applicable law; (c) conduct inimical to the health, morals, welfare or safety of either an individual in or receiving services from the RCFE or California residents; or (d) conviction of a licensee at any time during licensure of a crime other than a minor traffic violation. Also, the State Department of Social Services may require a RCFE to remove a resident who has a health condition which cannot be cared for within the limits of a RCFE license or requires inpatient care in a health facility as determined by the Department.

Independent Living Apartments. Independent living apartments are not currently subject to a licensure requirement in California. As a result, there is no legal definition of this type of facility. Such facilities tend to provide independent living accommodations, communal meals, housekeeping and concierge services. Independent living facilities neither offer nor arrange for assistance with daily living activities, health assessments or continuing intermittent health care services.

Continuing Care Contracts. The Department of Social Services governs and monitors the provision of continuing care under "continuing care" contracts. Continuing care contracts are agreements between a person sixty years or older and a provider whereby the provider undertakes the responsibility for providing personal, nursing, medical and health services and long-term board and lodging for a person's lifetime, in exchange for any prepayment or transfer of property prior to such services actually being rendered, whether or not such prepayments or transfers are supplemented with other payments. In accordance with California law, a provider may not enter into a continuing care contract without a certificate of authority issued by the Department of Social Services. The certificate of authority is required in addition to the licensure requirements governing the component parts of a continuing care retirement community ("CCRC"), such as skilled nursing, or residential care services.

Each applicant for a certificate of authority to enter into continuing care contracts as a provider is subject to review by the Department of Social Services of its financial statements, projected annual income statements, marketing plans and escrow agreements regarding reserved funds. In addition, providers must produce a copy of the proposed forms of continuing care contract, which must comply with certain specific requirements enumerated by statute. Furthermore, providers of continuing care services must comply with operational requirements regarding, inter alia, advertising, construction, and cancellation of continuing care contracts. Disclosure requirements continue post-certification, as a provider of continuing care services must file an annual report, including audited financial statements, within four months after the end of the provider's fiscal year.

Certificates of authority may be suspended, limited or revoked for cause for reasons, including failure to comply with applicable licensing and regulatory requirements, failure to maintain minimum reserve requirements and failure to file the required annual report. In addition, if a provider of continuing care services fails to establish or depletes the required reserves so that the protection of residents is placed in serious jeopardy, the Department of Social Services may petition the superior court in the county in which such facility is located for an order appointing an administrator to assume possession and management of the facility and its assets. Furthermore, if a provider fails to comply with certain ongoing disclosure requirements, or at any other time when the Department of Social Services has reason to believe the provider is insolvent (or in imminent danger of becoming insolvent) or may be unable to perform its obligations pursuant to its continuing care contracts, the Department may require the provider to submit a financial plan detailing the method of overcoming the deficiencies. Finally, when necessary to secure performance of all obligations of a provider to provide continuing care services to residents, the Department of Social Services may record a notice(s) of a lien on behalf of residents. Such a lien shall attach to all real property owned or acquired by the provider during the pendency of the lien, provided such property is not exempt from the execution of a lien and is located within the county in which the lien is recorded. The lien shall have the force, effect and priority of a judgment lien.

Management of the Corporation believes that the Corporation is in compliance with all relevant statutory and regulatory requirements. Failure to comply with any of the foregoing regulations may have a material adverse effect on the obligations of the Corporation and any future Members of the Corporation.

Certificate of Need. SNFs and RCFEs are not subject to a certificate of need requirement in California.

Management of the Corporation believes that its California facilities are in compliance with state licensure requirements. Any failure to maintain compliance could have a material adverse effect on the operations of the Corporation.

Regulatory Compliance

General. The above state licensing requirements are subject to change, and there can be no assurance that the Corporation's facilities will continue to be able to maintain necessary licenses and certificates of need or that they will not incur substantial costs in doing so. Failure to comply with such requirements could result in the loss of the right to payment by Medicare as well as the right to conduct the business of the licensed entity. Further, the facilities operated by the Corporation are subject to periodic inspection by governmental and other regulatory authorities to assure continued compliance with various standards and to provide for their continued licensing under state law and certification under the Medicare program.

From time to time, the Corporation's facilities receive notices from federal and state regulatory agencies relating to alleged deficiencies for failure to comply with all components of the licensure regulations. While the Corporation endeavors to comply with all applicable regulatory requirements, from time to time certain of the Corporation's facilities have been subject to various sanctions and penalties as a result of deficiencies alleged by the Health Care Financing Administration ("HCFA"), an agency of the United States Department of Health and Human Services ("HHS") or state survey agencies. While in certain instances denial of certification or licensure revocation actions have been threatened, management believes that the Corporation will not suffer any material adverse effect as a result thereof. There can be no assurance, however, that the Corporation or the other Members of the Corporation will not be subject to sanctions and penalties in the future as a result of such actions.

State Anti-Kickback and Physician Self-Referral Prohibitions. California also has similar anti-kickback statutes and physician self-referral prohibitions to the federal laws described earlier. Violations of these laws may result in civil and criminal penalties. Management of the Corporation believes that it is presently in material compliance with these state laws. However, in light of the broad language and interpretation of these laws, there can be no assurances that the Corporation will not be found to have violated these state laws, and, if so, that any sanction imposed would not have a material adverse effect on the operations of the facilities or the financial condition of the Corporation.

Pending Legislation

The Corporation's facilities are subject to a wide variety of federal, state, and local regulatory, legislative and policy changes which could have a significant impact on the Corporation. Various legislative proposals could affect the accounting for and use of entrance fees, segregated accounts and reserve requirements, and the monthly service fees charged to residents. In addition, government entities may enact legislation that imposes significant new burdens on the operations of the Corporation or alters or eliminates programs that contribute to the revenues of the Corporation. There can be no assurance that legislative bodies will not make legislative policy changes (or direct government agencies to promulgate regulatory changes) that have adverse effects upon the Corporation.

Other Legislation

Section 7872 of the Code (Treatment of Loans with Below-Market Interest Rates), provides for, in certain circumstances, the imputation of interest income to a lender when the rate of interest charged by the lender is below prevailing market rates (as determined under a formula) or, even if the below market interest rate loan would otherwise be exempt from the provisions of Section 7872, when one of the principal purposes for such below-market rate loan is the avoidance of federal income taxation.

A refundable entrance fee payment made by a resident to certain continuing care facilities may be determined under Section 7872 to constitute a below market interest rate loan by the resident to the facility to the extent that the resident is not receiving a market rate of interest on the refundable portion of the entrance fee. Section 7872(g) provides a "safe harbor" exemption for certain types of refundable entrance fees. The statutory language of Section 7872 does not permit a conclusive determination as to whether the residency agreements executed by residents of the Corporation's facilities come within the scope of the continuing care facility safe harbor or within the statute itself. Section 7872 is applicable only to "loans" in excess of $163,300. Entrance fees for some of the Corporation's residential living units are in excess of the applicable threshold of Section 7872. Any determination of applicability of Section 7872 could have the effect of discouraging potential residents from becoming or remaining residents of the facilities of the Corporation.

Intermediate Sanctions

On July 31, 1996, the Taxpayers Bill of Rights 2 (the "Taxpayers Act") was signed into law. The Taxpayers Act provides the IRS with an "intermediate" tax enforcement tool to combat violations by tax-exempt organizations of the private inurement prohibition of the Code. Previous to the "intermediate sanctions law," the IRS could punish such violations only through revocation of an entity's tax-exempt status.

Intermediate sanctions may be imposed where there is an "excess benefit transaction," defined to include a disqualified person (i.e., an insider) (1) engaging in a non-fair market value transaction with the tax-exempt organization; (2) receiving unreasonable compensation from the tax-exempt organization; or (3) receiving payment in an arrangement that violates the private inurement proscription.

A disqualified person who benefits from an excess benefit transaction will be subject to a "first tier" penalty excise tax equal to 25% of the amount of the excess benefit. Organizational managers who participate in an excess benefit transaction knowing it to be improper are subject to a first-tier penalty excise tax of 10% of the amount of the excess benefit, subject to a maximum penalty of $10,000. A "second tier" penalty excise tax of 200% of the amount of the excess benefit may be imposed on the disqualified person (but not the organizational manager) if the excess benefit transaction is not corrected in a specified time period.

The IRS has also issued Revenue Rulings dealing specifically with the manner in which a facility providing residential services to the elderly must operate in order to maintain its exemption under Section 501(c)(3). Revenue Rulings 61-72 and 72-124 hold that, if otherwise qualified, a facility providing residential services to the elderly is exempt under Section 501(c)(3) if the organization (1) is dedicated to providing, and in fact provides or otherwise makes available services for, care and housing to aged individuals who otherwise would be unable to provide for themselves without hardship, (2) to the extent of its financial ability, renders services to all or a reasonable proportion of its residents at substantially below actual cost and (3) renders services that minister to the needs of the elderly and relieve hardship or distress. Revenue Ruling 79-18 holds that a facility providing residential services to the elderly may admit only those tenants who are able to pay full rental charges, provided that those charges are set at a level that is within the financial reach of a significant segment of the community's elderly persons. The Revenue Ruling also holds that the organization must be committed, by established policy, to maintaining persons as residents, even if they become unable to pay the monthly charges after being admitted to the facility.

Corporate Practice of Medicine

Many states, including California, prohibit business corporations and other persons or entities not licensed to practice medicine from providing, or holding themselves out as providers of, medical care. Possible sanctions for violation of any of these restrictions or prohibitions include loss of licensure or eligibility to participate in reimbursement programs and civil and criminal penalties. These laws, their construction and level of enforcement, vary from state to state. Management of the Corporation believes that its facilities are, and will continue to be, in compliance with any restrictions on the corporate practice of medicine. Any failure to maintain this compliance could have a material adverse effect on the operations of the Corporation.

Enforceability of the Loan Agreement, the Lien on the Corporation's Gross Revenues and the Deed of Trust

The remedies available to the Trustee, the Authority or the holders of the Bonds to enforce the obligations of the Corporation under the Loan Agreement and the Deed of Trust may be limited by laws relating to bankruptcy (see "Bankruptcy" below), insolvency, reorganization or moratorium and by other similar laws affecting creditors rights, including equitable principles. In addition, the Trustee's ability to enforce such agreements will depend upon the exercise of various remedies specified by such documents which may in many instances require judicial actions that are often subject to discretion, delay and substantial costs or that otherwise may not be readily available or be limited.

The various legal opinions to be delivered concurrently with the issuance of the Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by State and federal laws, rulings and decisions affecting remedies, and by bankruptcy, reorganization or other laws of general application affecting the enforcement of creditors' rights, including equitable principles.

Factors Affecting Value of the Deed of Trust Property; Limitations on Remedies Under the Deed of Trust

Maintenance of Value. The Facilities subject to the Deed of Trust (the "Deed of Trust Property") are located in a region, like many regions of the State, that has experienced significant real property market volatility over the past several years. There can be no assurance that, should the Corporation default in making the Loan Repayments required by the Loan Agreement, (i) any part or all of the Deed of Trust Property could be foreclosed upon and sold for the amounts owed with respect to the Bonds (and any other obligations payable on a parity with the Bonds) or (ii) any bid would be received for such property and, if received, that such bid would be sufficient to pay such amounts.

Hazardous Substances. While governmental taxes, assessments and charges are common claims against the value of property, other less common claims may be relevant. In particular, any claim with regard to hazardous substances, if determined adversely to the Corporation, could have a material adverse impact on the value of the Deed of Trust Property. Moreover, the Corporation may be required by law to remedy conditions on the Deed of Trust Property relating to release of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or the "Superfund Act", is the most well-known and widely applicable of these laws. California laws with regard to hazardous substances are stringent and similar to certain federal requirements. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substance condition of property whether or not the owner (or operator) had or has anything to do with the creation or handling of the hazardous substance. The effect, therefore, should any of the facilities be affected by a hazardous substance, is generally to reduce the marketability and the value of the parcel by the cost of remedying the condition. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling the hazardous substance. Any of these circumstances could significantly affect the value of the Deed of Trust Property and the improvements thereon that would be realized upon a default and foreclosure.

Foreclosure. There are two methods of foreclosing on a Deed of Trust under California law, by nonjudicial sale and by judicial sale. Foreclosure under a Deed of Trust may be accomplished by a nonjudicial trustee's sale under the power of sale provision in the Deed of Trust. Prior to such sale, the trustee must record a notice of default and election to sell and send a copy to the trustor, to any person who has recorded a request for a copy of the notice of default and notice of sale, to any successor in interest of the trustor and to certain other parties discernable from the real property records. The trustee must then wait for the lapse of at least three months after the recording of the notice of default and election to sell before establishing the trustee's proposed sale date and giving a notice of sale (in a form mandated by California statutes). The notice of sale must be posted in a public place and published once a week for three consecutive calendar weeks, with the first such publication preceding the trustee's sale by at least 20 days. Such notice of sale must be posted on the property and sent, at least 20 days prior to the trustee's sale, to the trustor, to each person who has requested a copy, to any successor in interest of the trustor, to the beneficiary of any junior Deed of Trust and to certain other parties discernable from the real property records. In addition, the notice of sale must be recorded with the county recorder at least 14 days prior to the date of sale. The trustor, any successor in interest of the trustor in the trust property, or any person having a junior lien or encumbrance of record may, during the statutory reinstatement period, cure any monetary default by paying the entire amount of the debt then due under the terms of the Deed of Trust and the obligations secured thereby (exclusive of principal due by virtue of acceleration upon default) plus costs and expenses actually incurred in enforcing the obligation and certain statutorily limited attorneys' and trustee's fees. Following a nonjudicial sale, neither the trustor nor any junior lienholder has any right of redemption, and the beneficiary may not ordinarily obtain a deficiency judgment against the trustor. See – "Antideficiency Legislation and Certain Other Limitations on Lenders" below.

Should foreclosure under the Deed of Trust be sought in the form of a judicial foreclosure, it is generally subject to most of the delays and expenses of other lawsuits, and may require several years to complete. The primary advantage of a judicial foreclosure is that the beneficiary is entitled, subject to other limitations, to obtain a deficiency judgment against the trustor to the extent that the amount of the debt is in excess of the fair market value of the property. Following a judicial foreclosure sale, the trustor or its successors in interest may redeem the property for a period of one year (or a period of only three months if the proceeds of sale are sufficient to satisfy the debt, plus interest and costs). In addition, in order to assure collection of any rents assigned as additional collateral under the Deed of Trust, a receiver for the Deed of Trust Property might need to be appointed by a court.

Antideficiency Legislation and Certain Other Limitations on Lenders. California has four principal statutory prohibitions limiting the remedies of a beneficiary under a deed of trust. Two such prohibitions limit the beneficiary's right to obtain a deficiency judgment, one being based on the method of foreclosure and the other on the type of debt secured. Under the former, a deficiency judgment is ordinarily barred when the foreclosure is accomplished by means of a nonjudicial trustee's sale, except for limited exceptions not applicable to the Deed of Trust. Under the latter (not applicable in this situation), a deficiency judgment is barred when a foreclosed deed of trust secured certain purchase money obligations.

Another California statute, commonly known as the "one form of action" rule, requires the beneficiary to exhaust the security under the deed of trust by foreclosure before bringing a personal action against the trustor on the indebtedness. If a court were to hold that this rule were applicable to the Deed of Trust, and if the Trustee, the trustee under the Deed of Trust or the holders of the Bonds were to file suit or take other action (including set off) to collect debt secured by the Deed of Trust without seeking to enforce their remedies under the Deed of Trust, they might be precluded from thereafter proceeding under the Deed of Trust.

Finally, a fourth State statutory provision limits any deficiency judgment obtained by a beneficiary following a judicial sale to the excess of the outstanding debt above the fair market value of the property at the time of sale. This prevents a beneficiary from obtaining a large deficiency judgment against the debtor as the result of low bids at a judicial sale. The choice among methods of disclosure could, therefore, significantly affect the amount that may be realized from the sale of the Property in the event of a default by the Corporation. Moreover, as described above, if the Trustee were to take direct action on the debt or exercise other rights against the Corporation rather than foreclosing the Deed of Trust, the benefit of the real property security could be lost.

Other statutory provisions (such as the federal bankruptcy laws) may have the effect of delaying enforcement of the lien of the Deed of Trust in the event of a default by the Corporation. See "Bankruptcy" below.

Trustee's Conditional Obligation to Foreclose

The Trustee is authorized by the Loan Agreement and the Deed of Trust to foreclose on real property owned by the Corporation following certain Events of Default. However, the Trustee is not obligated to take possession unless the Trustee determines that certain conditions relating to its potential liability under applicable environmental laws have been satisfied. See APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

The Indenture further provides that, so long as the Contract of Insurance is in effect and the Office is not in default thereunder, the Office, as co-beneficiary under the Deed of Trust, may foreclose in place of the Trustee.

Environmental Risks

There are potential risks relating to liabilities for environmental conditions with respect to the Corporation's ownership of and maintenance of its healthcare facilities. If hazardous substances are found to be located on property, owners of such property may be held liable for costs and other liabilities related to the presence, migration or removal of such substances, which costs and liabilities could exceed the value of the property. The Corporation is not aware of any pending or threatened claim, investigation or enforcement action regarding environmental issues relating to its facilities. Any future claim, investigation or enforcement action, if determined adversely to the Corporation, would have material adverse consequences to the operations or financial condition of the Corporation and would likely impact the ability of the Corporation to pay debt service on the Bonds when due. See also "Factors Affecting Value of the Deed of Trust Property; Limitations on Remedies Under the Deed of Trust – Hazardous Substances."

Seismic Risks

The Corporation's facilities are located in a seismically active region of southern California. The occurrence of severe seismic activity in the area could result in substantial damage to the Corporation's facilities. The Loan Agreement does not require earthquake insurance to be maintained with respect to the facilities, and the Corporation does not plan to obtain or maintain such coverage. The Project is also subject to other natural and man-made disasters or "acts of God" that could significantly damage the Corporation's facilities. For a description of the insurance required to be maintained with respect to certain of such disasters, see APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Regulatory Agreement –Insurance." In the event of a severe earthquake or other disaster, available funds may be insufficient to restore the facilities and, as a result, such a disaster could materially adversely affect the Corporation's ability to pay principal of and interest on the Bonds.

Bankruptcy

In the event of bankruptcy of the Corporation, the rights and remedies of the Holders of the Bonds are subject to various provisions of the federal Bankruptcy Code. If the Corporation were to file a petition in bankruptcy, payments made by the Corporation during the 90-day (or perhaps one-year) period immediately preceding the filing of such petition may be voidable as preferential transfers to the extent such payments allow the recipients thereof to receive more than they would have received in the event of the Corporation's liquidation. Security interests and other liens granted to a Trustee and perfected during such preference period also may be voided as preferential transfers to the extent such security interest or other lien secures obligations that arose prior to the date of such perfection. Such a bankruptcy filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against the Corporation and its property and as an automatic stay of any act or proceeding to enforce a lien upon or to otherwise exercise control over its property as well as various other actions to enforce, maintain or enhance the rights of a Trustee. If the bankruptcy court so ordered, the property of the Corporation, including accounts receivable and proceeds thereof, could be used for the financial rehabilitation of the Corporation despite any security interest of a Trustee therein. The rights of the Trustee to enforce its security interests and other liens it may have could be delayed during the pendency of the rehabilitation proceeding.

The Corporation could file a plan for the adjustment of its debts in any such proceeding, which plan could include provisions modifying or altering the rights of creditors generally or any class of them, secured or unsecured. The plan, when confirmed by a court, binds all creditors who had notice or knowledge of the plan and, with certain exceptions, discharges all claims against the debtor to the extent provided for in the plan. No plan may be confirmed unless certain conditions are met, among which are conditions that the plan be feasible and that it shall have been accepted by each class of claims impaired thereunder. Each class of claims has accepted the plan if at least two thirds in dollar amount and more than one-half in number of the class cast votes in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

Pursuant to the Indenture, the Office shall have the right to vote in the place and stead of all Holders of Bonds with respect to any plan of reorganization on any agreement for composition of creditors and on any assignment for the benefit of creditors.

In the event of bankruptcy of the Corporation, there is no assurance that certain covenants, including tax covenants, contained in the Loan Agreement or other documents would survive.

Accordingly, a bankruptcy trustee could take action that would adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes.

Other Considerations

Labor Relations. Nonprofit nursing homes and their employees came under the jurisdiction of the National Labor Relations Board in 1974. At the present time none of the employees of the Corporation is represented by a labor organization. Unionization of employees or a shortage of qualified professional personnel could cause an increase in payroll costs beyond those projected.

Reduced Demand. The reduced need for services arising from future scientific advances, preventive medicine, home healthcare services, alternative delivery systems, changes in demographics, or a decline in the population or the economic condition of the service area of the Corporation's nursing care, assisted living or residential facilities may adversely affect the Corporation's revenues.

Insurance. In recent years the number of malpractice suits and the dollar amount of patient damage recoveries have been increasing nationwide, resulting in substantial increases in malpractice insurance premiums. Cost and availability of any insurance, such as malpractice, fire, automobile, and general comprehensive liability, that nursing care and residential facilities of a similar size and type generally carry may change unexpectedly, which could adversely affect the Corporation's operations.

Changes in Tax Policy. Taxing authorities in certain jurisdictions have sought to impose or increase taxes related to the property and operations of nonprofit organizations, including nursing homes, assisted living facilities and residential rental housing, particularly where such authorities are dissatisfied with the amount of service provided to indigents. The Corporation believes its services to indigents are adequate, but it is possible that future administrative or judicial proceedings will have the effect of requiring the Corporation to increase its services to indigent patients to retain its tax-exempt status, or to pay additional taxes, either of which would have an adverse effect on the revenues of the Corporation.

Cost Increases. Cost increases without corresponding increases in revenue would result from, among other factors, increases in the salaries, wages and fringe benefits of employees, increases in costs associated with advances in medical technology or with inflation and future legislation which would prevent or limit the ability of the Corporation to increase revenues from operating its facilities or providing services. At present, charitable organizations such as the Corporation do not pay real estate taxes on certain real property used in connection with their exempt purposes, and are not required to pay fees for municipal services in respect of such real property unless the fees represent user fees of general application. It is possible that California will pass legislation requiring certain tax exempt organizations, such as the Corporation, to pay certain fees for municipal services, which may in turn increase the Corporation's operating costs. Furthermore, the Code places certain limitations on the ability to finance certain projects, invest bond proceeds and advance refund prior tax-exempt bond issues. These limitations may increase the interest costs for future borrowings by the Corporation.

Governmental Approvals. The possible inability to obtain future governmental approvals to undertake projects necessary to remain competitive both as to rates and charges as well as quality and scope of care could adversely affect the operations of the Corporation.

Natural Disasters. The occurrence of natural disasters, including earthquakes, floods and tornadoes, may damage some or all of the facilities operated by the Corporation or interrupt utility service to some or all of the facilities, otherwise impair the operations of some or all of the facilities, or the generation of revenues from some or all of the facilities. The Corporation may not be able to obtain insurance against all such hazards at commercially reasonable rates.

Adverse Relations. Adverse community relations or publicity involving some or all of the facilities owned or managed by the Corporation could affect the demand for the services provided by such facilities, or the generation of revenues from some or all of the facilities.

Other Legislation. The Corporation's facilities are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations that address, among other things, operations of facilities and properties owned or operated by nursing facilities. Among the types of regulatory requirements faced by nursing facilities are: air and water quality control requirements; waste management requirements; specific regulatory requirements applicable to asbestos; requirements related to polychlorinated biphenyls, and radioactive substances; requirements for providing notice to employees and members of the public about hazardous materials handled by or located at the nursing facility or hospital; requirements for training employees in the proper handling and management of hazardous materials and wastes; and other requirements. In their role as owners and operators of properties or facilities, the Corporation and its facilities may be subject to liability for investigating and remedying any hazardous substances that have come to be located on the property, including any such substances that may have migrated off of the property. Typical operations of skilled nursing, assisted living and residential facilities include, to some extent, and in various combinations, the handling, use, storage, transportation, disposal and discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants or contaminants. For this reason, operations of such facilities are susceptible to the practical, financial and legal risks associated with compliance with such laws and regulations. Such risks may result in damage to individuals, property or the environment; may interrupt operations or increase their cost or both; may result in legal liability, damages, injunctions or fines; or may trigger investigations, administrative proceedings, penalties or other government agency actions. There can be no assurance that the Corporation will not encounter such risks in the future, and such risks may result in material adverse consequences to the operations or financial condition of the Corporation.

Bond Ratings

There is no assurance that the ratings assigned to the Bonds will not be lowered or withdrawn at any time, the effect of which could be to adversely affect the market price for and marketability of the Bonds.

Marketability of the Bonds

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that any bonds can be sold for any particular price. Prices of bond issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

No assurance can be given that the market price for the Bonds will not be affected by the introduction or enactment of any future legislation (including without limitation amendments to the Internal Revenue Code), or changes in interpretation of the Internal Revenue Code, or any action of the Internal Revenue Service, including but not limited to the publication of proposed or final regulations, the issuance of rulings, the selection of the Bonds for audit examination, or the course or result of any Internal Revenue Service audit or examination of the Bonds or obligations that present similar tax issues as the Bonds.

MATERIAL LITIGATION

The Corporation

There is no controversy or litigation of any nature now pending against the Corporation or, to the knowledge of its officers, threatened, restraining or enjoining the issuance of the Bonds or in any way contesting or affecting (i) the validity of the Bonds, or (ii) any proceedings of the Corporation taken concerning the issuance or sale thereof, or the collection of Revenues pledged under the Indenture.

There is no litigation of any nature now pending against the Corporation or, to the knowledge of the Corporation's officers, threatened, which, if successful, would materially adversely affect the operations or financial condition of the Corporation.

The Authority

To the knowledge of the Authority, there is no action, suit, proceeding, inquiry or investigation at law or in equity, before or by any court, governmental agency, public board or body, pending against the Authority seeking to restrain or enjoin the issuance, sale, execution or delivery of the Bonds or in any way contesting or affecting any proceedings of the Authority taken concerning the issuance or sale thereof, the pledge or application of any moneys or security provided for the payment of the Bonds, in any way contesting the validity or enforceability of the Indenture, the Loan Agreement, the Contract of Insurance or the Regulatory Agreement or contesting in any way the completeness or accuracy of the Official Statement, or the existence or powers of the Authority relating to the issuance of the Bonds

TAX MATTERS

In the opinion of Holland & Knight LLP, Bond Counsel, under existing law, the interest on the Bonds is exempt from present State of California personal income taxes. In addition, in the opinion of Bond Counsel, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes.

The Internal Revenue Code of 1986, as amended (the "Code"), and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for the interest thereon to be and remain excludable from gross income for federal income tax purposes. Examples include: the requirement that the Corporation maintain its status as an organization exempt from federal income taxation by reason of being described in Section 501(c)(3) of the Code; the requirement that, unless an exception applies, the Authority rebate certain excess earnings on proceeds and amounts treated as proceeds of the Bonds to the United States Treasury; restrictions on the investment of such proceeds and other amounts; and restrictions on the ownership and use of any facilities financed or refinanced with the proceeds of the Bonds. The foregoing is not intended to be an exhaustive listing of the post-issuance tax compliance requirements of the Code, but is illustrative of the requirements that must be satisfied by the Authority and the Corporation subsequent to the issuance of the Bonds to maintain the exclusion of interest on the Bonds from gross income or federal income tax purposes. Failure to comply with such requirements may cause the inclusion of interest on the Bonds in the gross income of the owners thereof for federal income tax purposes, retroactive to the date of issuance of the Bonds. The Authority and the Corporation have covenanted in the Indenture and the Loan Agreement to comply with each such requirement of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excludable from gross income for federal income tax purposes. The opinion of Bond Counsel is subject to the condition that the Authority and the Corporation comply with all such requirements. Bond Counsel has not been retained to monitor compliance with the described post-issuance tax requirements subsequent to the issuance of the Bonds.

Alternative Minimum Tax. An alternative minimum tax is imposed by the Code on both corporations (as defined for federal income tax purposes) and on taxpayers other than corporations. Interest on the Bonds will not be treated as an item of tax preference for purposes of the alternative minimum tax. Interest on the Bonds will therefore not be included in the alternative minimum taxable income of taxpayers other than corporations. Interest on the Bonds received by a corporate Bondholder will, however, be included in such a Bondholder's adjusted current earnings. A corporation's alternative minimum taxable income will be increased by seventy-five percent (75%) of the corporation's adjusted current earnings not otherwise included in its alternative minimum taxable income. The rate of the alternative minimum tax imposed on corporations is twenty percent (20%).

Original Issue Premium. The Bonds maturing on September 1, 2012 and September 1, 2015, (collectively, the "Premium Bonds"), were sold to the public at a premium. Section 171 of the Code provides rules under which a bond premium may be amortized and a deduction allowed for the amount of the amortizable bond premium for a taxable year. Under Section 171(a)(2) of the Code, however, no deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excludable from gross income. Under Section 1016(a)(5) of the Code, the purchaser's basis in a Premium Bond will be reduced by the amount of the amortizable bond premium disallowable as a deduction under Section 171(a)(2) of the Code. Proceeds received from the sale, exchange, redemption or payment of a Premium Bond in excess of the owner's adjusted basis (as reduced pursuant to Section 1016(a)(5) of the Code) will be treated as a gain from the sale or exchange of such Premium Bond and not as interest.

Original Issue Discount. The Bonds maturing on September 1, 2020, September 1, 2024 and September 1, 2037, (collectively, the "Discount Bonds"), were sold to the public at an original issue discount. The original issue discount is the excess of the stated redemption price at maturity of such a Discount Bond over the initial offering price to the public (excluding underwriters and other intermediaries) at which price a substantial amount of that maturity of the Discount Bonds was sold. Under existing law, an appropriate portion of any original issue discount, depending in part on the period a Discount Bond is held by the purchaser thereof, will be treated for federal income tax purposes as interest which is excludable from gross income rather than being treated as taxable gain.

Under Section 1288 of the Code, original issue discount on tax-exempt bonds accrues on a compounded basis. The amount of original issue discount that accrues to a holder of a Discount Bond, who acquires the Discount Bond in this initial offering, during any accrual period generally equals (i) the issue price of such Discount Bond plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (ii) the yield to maturity of such Discount Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), less (iii) any interest payable on such Discount Bond during such accrual period. The amount of original issue discount so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excluded from gross income for federal income tax purposes, and will increase the holder's tax basis in such Discount Bond. Proceeds received from the sale, exchange, redemption or payment of a Discount Bond in excess of the holder's adjusted basis (as increased by the amount of original issue discount which has accrued and has been treated as tax-exempt interest in the holder's hands), will be treated as gain from the sale or exchange of such Discount Bond and not as interest.

The federal income tax consequences from the purchase, ownership and redemption, sale or other disposition of Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. Owners of Discount Bonds should consult their own tax advisors with respect to the consequences of owning Discount Bonds, including the effect of such ownership under applicable state and local laws.

Reference is made to the proposed form of opinion of Bond Counsel as to the Bonds attached hereto as APPENDIX E for the complete text thereof.

Other Tax Consequences. Prospective purchasers of the Bonds should be aware that ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income," foreign corporations subject to the branch profits tax and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the Bonds. Prospective purchasers of the Bonds should also be aware that ownership of the Bonds may result in adverse tax consequences under the laws of various states. Bond Counsel has not expressed an opinion regarding the collateral federal income tax consequences that may arise with respect to the Bonds. Further, Bond Counsel has expressed no opinion regarding the state tax consequences that may arise with respect to the Bonds other than the opinion described above relating to present State of California personal income taxes. Prospective purchasers of the Bonds should consult their tax advisors as to the collateral federal income tax and state tax consequences to them of owning the Bonds.

Information Reporting and Backup Withholding. Interest paid on tax-exempt bonds, such as the Bonds, is subject to information reporting to the Internal Revenue Service in a manner similar to interest paid on taxable obligations. This reporting requirement does not affect the excludability of interest on the Bonds from gross income for federal income tax purposes. However, in conjunction with that information reporting requirement, the Code subjects certain non-corporate holders of Bonds, under certain circumstances, to "backup withholding" at (i) the fourth lowest rate of tax applicable under Section 1(c) of the Code (*i.e.*, a rate applicable to unmarried individuals) for taxable years beginning on or before December 31, 2010; and (ii) the rate of 31% for taxable years beginning after December 31, 2010, with respect to payments on the Bonds and proceeds from the sale of Bonds. Any amounts so withheld would be refunded or allowed as a credit against the federal income tax of such holder of Bonds. This withholding generally applies if the holder of Bonds (i) fails to furnish the Trustee (or other payor) such holder's social security number or other taxpayer identification number ("TIN"), (ii) furnished the Trustee (or other payor) an incorrect TIN, (iii) fails to properly report interest, dividends, or other "reportable payments" as defined in the Code, or (iv) under certain circumstances, fails to provide the Trustee (or other payor) or such holder's securities broker with a certified statement, signed under penalty of perjury, that the TIN provided is correct and that such holder is not subject to backup withholding.

APPROVAL OF LEGALITY

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Holland & Knight LLP, Bond Counsel to the Authority. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix E. Certain legal matters will be passed upon for the Authority by its special counsel, Chapman & Cutler LLP, for the Corporation by its counsel, Procopio, Cory, Hargreaves & Savitch LLP, for the Office by its staff counsel and for the Underwriters by Orrick, Herrington & Sutcliffe LLP. None of the counsel mentioned above undertakes any responsibility for the accuracy, completeness or fairness of this Official Statement.

UNDERWRITING

The Bonds are being purchased by the Underwriter named on the cover of this Official Statement. The Underwriter has agreed to purchase the Bonds at a purchase price of $53,661,446 (which represents the $54,310,000 par amount of the Bonds, less original issue discount of $295,539, less the Underwriter's discount of $353,015). The Bond Purchase Contract provides that the Underwriter will purchase all of the Bonds, if any are purchased, and contains the agreement of the Corporation to indemnify the Underwriter, the Authority and the Trustee against certain liabilities to the extent permitted by law. The initial public offering prices set forth on the inside cover page may be changed without notice from time to time by the Underwriter.

INDEPENDENT AUDITOR

The financial statements of the Corporation as of and for the years ended July 31, 2009 and 2008 included in Appendix B to this Official Statement have been audited by Kellogg & Andelson Accountancy Corporation, as stated in their report appearing therein.

FEASIBILITY CONSULTANT

Hendrickson Consulting, Sausalito, California, has undertaken a Feasibility Study, which was used in obtaining insurance from the Office on the Bonds, and is set forth as Appendix G to this Official Statement. The Feasibility Study should be read in its entirety, and reference is made to it for a description of the assumptions underlying the forecasts included therein.

RATINGS

Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P"), has assigned its municipal bond rating of "A-" (with a negative outlook) to the Bonds with the understanding that, upon delivery of the Bonds, payment of the principal of and interest on the Bonds will be insured by the Office. The rating reflects S&P's current assessment of the creditworthiness of the Office and its ability and the ability of the State of California to pay claims under the Program. According to the S&P rating letter for the Bonds, "The negative outlook is based on that of California's GO debt rating. Since we rate the Cal-Mortgage insurance program's bonds on par with the state's GO rating, any action affecting the state will directly affect the rating on the Cal-Mortgage program." In addition, Fitch Ratings ("Fitch") has assigned an underlying rating to the Bonds of BBB+.

Any explanation of the significance of such ratings may only be obtained from S&P and Fitch. The Corporation furnished to the rating agencies certain information and material concerning the Bonds, the Office, the Program and itself. Generally, rating agencies base their ratings on such information and materials and on investigations, studies and assumptions made by the rating agencies themselves. There is no assurance that the ratings mentioned above will remain in effect for any given period of time or that such ratings might not be lowered or withdrawn entirely by a rating agency, if, in its judgment, circumstances so warrant. The Underwriter has undertaken no responsibility either to bring to the attention of the Holders of the Bonds any proposed change in or withdrawal of any rating or to oppose any such proposed revision or withdrawal. Any such downward change in or withdrawal of any rating might have an adverse effect on the market price or marketability of the Bonds.

MISCELLANEOUS

The foregoing and subsequent summaries or descriptions of provisions of the Bonds, the Contract of Insurance, the Indenture, the Loan Agreement, the Regulatory Agreement and the Deed of Trust and all references to other materials not purporting to be quoted in full are only brief outlines of some of the provisions thereof and do not purport to summarize or describe all of the provisions thereof. Reference is made to said documents for full and complete statements of the provisions of such documents. The appendices attached hereto are a part of this Official Statement. Copies, in reasonable quantity, of the Indenture, the Loan Agreement, the Contract of Insurance, the Regulatory Agreement and the Deed of Trust may be obtained during the offering period upon request to the Underwriter and thereafter upon request to the principal corporate trust office of the Trustee.

This Official Statement has been issued by the Authority and approved by the Corporation. This Official Statement is not to be construed as a contract or agreement between the Authority or the Corporation and the purchasers or Holders of any of the Bonds.

ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS

By: /s/ Clarke J. Howatt
Clarke J. Howatt, Secretary

APPROVED BY:

CASA DE LAS CAMPANAS, INC.

By: /s/ James J. Beeman
Vice Chair of the Board of Directors

By: /s/ Kim Dominy
Executive Director

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APPENDIX A

INFORMATION CONCERNING THE CORPORATION

The information contained in this
Appendix A has been obtained from Casa de las Campanas, Inc.

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HISTORY AND BACKGROUND

Casa de las Campanas, Inc. (the "Corporation") is a California nonprofit public benefit corporation and is exempt from federal income taxes as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the "Code"). The Corporation was originally organized in 1989 to provide multi-level housing, non-acute health care and related services to the elderly.

The Corporation owns a continuing care retirement facility which includes 380 units of independent living (the "Retirement Center"), a 33-unit assisted living unit with a capacity of 44 beds (the "Assisted Living Unit"), an 18-unit dementia/assisted living unit with a capacity of 27 beds (the "Dementia Unit"), and an adjacent 99-bed skilled nursing facility (the "Skilled Nursing Facility"), located in the Rancho Bernardo area of northern San Diego County, 25 miles from downtown San Diego, California. The Retirement Center, including the Assisted Living Unit and the Dementia Unit, and Skilled Nursing Facility are referred to herein as the "Facilities."

FACILITIES AND SERVICES

Description of the Facilities

The Facilities are located on an approximately 22 acre site owned by the Corporation. The Retirement Center and Skilled Nursing Facility were constructed in two phases, with 242 residential units, the Assisted Living Unit and the Skilled Nursing Facility constructed in the first phase ("Phase I") and the remaining residential units constructed in the second phase ("Phase II"). Occupancy of the Phase I residential units began in July 1988, and occupancy of the Phase II residential units began in July 1989. The Skilled Nursing Facility was completed and licensed to operate in February 1989. The Dementia Unit was completed and licensed to operate in December 2005.

The Retirement Center consists of residential buildings that are provided with equipment and features designed for geriatric safety. In addition to the residential unit portion of the Retirement Center, the Assisted Living Unit and the Dementia Unit, the buildings house a salon, library, billiard room, card room, on-site ATM machine, a convenience store, and common areas for dining, fitness, social, computer, arts and crafts, and other activities. Outdoors, there are several landscaped courtyards for recreational activities, including gardening, as well as a dog park, two outdoor swimming pools and reserved parking. All residential units include carpeting, full kitchens with major appliances, emergency call systems, smoke detectors, bathroom grab bars and storage space.

The Assisted Living Unit consists of a 28,535 square foot facility with a total of 33 units, including 22 private rooms and 11 semi-private rooms. The Assisted Living facilities are located within the same building as Retirement Center units, but have additional health support services and a separate dining room. Residents of the Assisted Living Unit benefit from a passive monitoring system to assure their safety, a social activity program seven days a week, and staffing at a higher level to monitor and address cognitive issues and communicating changes in condition to their responsible party and physician.

The Dementia Unit consists of a 13,500 square foot stand-alone facility. Residents residing at this level of care benefit from a social model of programming designed to meet the unique needs of residents with mild to moderate stages of cognitive impairment.

The Skilled Nursing Facility is located in a single-story structure and is licensed for 96 semi-private skilled nursing beds and 3 private skilled nursing beds. The Skilled Nursing Facility also includes a central landscaped courtyard, a large fish tank, an activity room, two dining rooms, administrative offices, an employee lounge, and two nursing stations.

In 2003, the Corporation implemented a "Keep Casa Current" capital improvement program for common areas and residential units. This program was developed through comprehensive surveys and focus groups of residents at the Facilities seeking their input on making capital upgrades to the Facilities as well as improving resident services, particularly in the Assisted Living Unit and the Skilled Nursing Facility. The "Keep Casa Current" program involved residential apartment upgrades such as new cabinets, countertops in the kitchen and bath, new closet doors, carpet, paint and appliances. Other construction projects to the Facilities have included major roofing repairs and replacements, central HVAC, Nurse Call System, heat pump replacements, balcony and stucco repair, new lobby, ADA access upgrades, sidewalks, new employee parking lot, new day spa and training room, new carpet, interior remodel of the Skilled Nursing Facility, new elevator, new building for Dementia Unit, new cooling tower, new park and landscape, remodel dining rooms, major kitchen upgrade, telephone system replacement, new doors and hardware, and energy management system.

Approximately $4,000,000 of the proceeds of the Bonds will be utilized for future capital improvements that include the Norte building renovations for a kitchen, lobby, dinner theater, roofing and new carpet.

Management of the Facilities

The Facilities are managed by Life Care Services LLC ("LCS") under a management agreement between LCS and the Corporation. See "MANAGEMENT AGENT" herein.

Description of the Services Provided

Services for residents generally include one or more meals per day, building and grounds maintenance, custodial service, weekly flat laundry service, scheduled transportation service, all utilities except telephone and cable television, personal care services, assisted living services, unlimited nursing home care in the Skilled Nursing Facility at no additional cost other than additional daily meals and certain other outlined costs, tray service, planned activities, bi-weekly housekeeping services, parking, use of all common and activity areas, an emergency call system, smoke detectors and security.

Residential Living. Residents receive accommodations that include building and grounds maintenance and security; 24-hour emergency call system; utilities that include water, trash collection, central heating, electricity and gas; basic television service; basic furnishings that include draperies and wall-to-wall carpeting; up to three nutritionally balanced meals per day; weekly housekeeping and linen services; storage space; parking; recreation; fitness, cultural, educational, spiritual, and social programs; catering services; chaplain and worship services; and scheduled transportation services. Assistance with self-administered medications, nutrition services, wellness clinical services and care of minor ailments are also provided. Additional optional services are available.

Assisted Living. Residents receive the residential living services identified above plus additional assistance with general activities of daily living such as bathing, grooming, dressing, feeding, ambulation and assistance with storage and distribution of medications. Licensed nurses, certified nursing assistants or other trained caregivers are available on a 24-hour basis to monitor and assist residents.

Dementia. Residents receive the residential living services identified above plus additional assistance with a social activity program seven days a week and staffing at a higher level to monitor and address cognitive issues and communicate changes in condition to their responsible party and physician.

In addition, general activities of daily living such as bathing, grooming, dressing, feeding, ambulation and assistance with storage and distribution of medications. Licensed nurses, certified nursing assistants or other trained caregivers are available on a 24 hour basis to monitor and assist residents.

Skilled Nursing. Residents receive 24-hour per day licensed nursing care that includes care planning, skin and wound care, incontinence care and coordination of diagnostic and therapeutic services, all of which are performed under the supervision of the resident's physician. Rehabilitation services, social services and specialized dietary care are provided on an ongoing basis.

Future Residents. The "Future Resident's Club" is designed for future residents of the Facilities who are automatically "enrolled" in the club when they join the waiting list. The benefits to future residents include one meal per month, invitations to quarterly on-site events (such as a wine and cheese social), and the eligibility to attend resident activity events on a space available basis.

RESIDENCE AGREEMENTS

The continuing care contracts that the Corporation uses at the Facilities (the "Residence Agreements") have been approved by the California Department of Social Services ("Social Services") as complying with all relevant statutory and regulatory requirements.

Current Resident Agreements

The Retirement Center will generally accept as residents persons at least 62 years of age who are able to care for themselves as outlined in the Residence Agreements, and who have financial resources sufficient to pay the entrance fee, monthly service fee and other daily living expenses. It is a contractual requirement of the Residence Agreements that a resident not be displaced from the Facilities should such resident be incapable of paying the monthly service fees. Under the terms of the Residence Agreements, the resident agrees to pay an initial entrance fee and a monthly service fee that entitle the resident to occupy a residential unit for lifetime use and to receive certain services (including health care services), subject to certain conditions outlined in the Residence Agreements. Services provided under the Residence Agreements are as described under "FACILITIES AND SERVICES – Description of the Services Provided."

Entrance fees range from $164,300 for a studio unit to $579,560 for a two-bedroom premium view unit and $35,000 for the second person under the Standard Plan contract. Entrance fees range from $274,381 for a studio unit to $967,865 for a two-bedroom premium view unit and $58,450 for the second person for the 75% Refundable Plan contract. The first person monthly service fees range from $2,020 for a studio unit up to $4,141 for a two-bedroom premium view unit and $1,348 for the second person. Management believes, based on a marketing analysis, that the entrance fees and monthly service fees charged by the Corporation are competitive with entrance fees and monthly service fees charged by other continuing care retirement facilities.

The Corporation requires, in accordance with a deposit subscription agreement, a deposit of 20% of the entrance fee before a residential unit is considered reserved. If the deposit subscription agreement is terminated by the prospective resident before such resident moves into the Facilities, a refund of the entire deposit is made, without interest, less a processing fee of $1,000, within 30 days of termination. If the prospective resident dies or is not accepted for residency, the entire deposit, without interest, will be refunded within 30 days.

Each prospective resident enters into a Residence Agreement prior to occupancy of the residential unit. Upon entering into the Residence Agreement, the balance of the entrance fee is paid, the deposit subscription agreement is cancelled and a 90-day cancellation period commences. During the cancellation period, the resident or the Corporation may cancel the Residence Agreement without cause. Upon cancellation of the Residence Agreement or death during the cancellation period all funds deposited by the resident, including interest earned during the deposit period, will be refunded less (i) a $1,000 processing fee, (ii) the costs of special modifications of features made to the residential unit as requested by the resident and (iii) the reasonable value of any services or items provided by the Corporation and not included in the Residence Agreement.

Prospective residents currently have two forms of Residence Agreements from which to choose, the Standard Plan and 75% Refundable Plan. Under the Standard Plan, if a resident assumes occupancy in the Retirement Center and his or her Residence Agreement is cancelled by the resident for any reason other than death of the resident after expiration of the 90-day cancellation period, the resident will receive a refund of the entrance fee less the sum of (i) a 10% cancellation fee, (ii) 1% per month of occupancy, and (iii) any accrued and unpaid expenses, including without limitation any unreimbursed expenses incurred for the resident's care at the Skilled Nursing Facility. The resident must give 90 days' notice to cancel a contract, and any refund is required to be paid within 14 days after the unit is vacated. After seven and one-half years (90 months) of occupancy, no refund will be made under the Standard Plan. Under the Standard Plan, no refund is made to a resident's estate if the Residence Agreement is cancelled because of death after expiration of the 90-day cancellation period. Currently, approximately 447 or 98% of all Residence Agreements are under the Standard Plan.

The 75% Refundable Plan offers a refund at the time of a resident's death of seventy-five percent (75%) of the entrance fee paid. Refund provisions based upon cancellation of the agreement by the resident are the same as in the other contracts. Currently, only five residents are under the 75% Refundable Plan.

If, in consultation with a resident's family, physician and the facility administrator, it is determined that a resident is unable to care for him or herself within the range of services provided by the non-assisted living portion of the Retirement Center or becomes a danger to him or herself or others, as defined by the regulations promulgated by Social Services, such resident will be transferred to either the Assisted Living Unit, the Dementia Unit or the Skilled Nursing Facility. If insufficient beds are available in the Skilled Nursing Facility, the Corporation will arrange to place the resident in another facility in San Diego County at no additional cost to the resident until space becomes available in the Skilled Nursing Facility. When transferred on a permanent basis to either the Assisted Living Unit, the Dementia Unit or the Skilled Nursing Facility, and assuming there is no other party (such as a spouse) to the Residence Agreement, the resident's unit will become available to a new resident. Should the resident recover sufficiently at a later date to resume unassisted living, the Corporation is required to provide a like or similar unit to the resident.

Legacy Resident Agreements

Between 1988 and 2003, residents had the option of a 80% Refundable Plan. This contract called for 80% of the entrance fee to be refunded upon the resident's death. Although no longer available to new residents, two residents are currently under the 80% Refundable Plan.

Between 1988 and 1996, residents had the option of a 50% Refundable Plan. This contract called for 50% of the entrance fee to be refunded upon the resident's death. Although no longer available to new residents, one resident is currently under the 50% Refundable Plan.

HISTORICAL UTILIZATION

The following table provides occupancy statistics for the Facilities.

	Fiscal Year Ended July 31,			Four Months Ended November 30, 2009
	2007	2008	2009	
Retirement Center:[1]				
Average available units/beds	421	424	422	424
Average occupied units/beds	406.6	404.2	388	371
Average occupancy	96.6%	95.3%	92%	87.5%
Dementia Unit: [2]				
Average available beds	27	27	27	27
Average occupied beds	16.8	20.4	22.8	25
Average occupancy	62%	76%	84.4%	92.6%
Skilled Nursing Facility:				
Licensed Beds	99	99	99	99
Available Beds	99	99	99	99
Occupied Beds	74.5	70.5	74.7	74.1
Average Occupancy[3]	75.3%	71.2%	75.5%	74.8%

(1) Includes the Assisted Living unit/beds available billed at current standard rates.
(2) Commenced operations in December 2005.
(3) Based on available units/beds, as occupancy excludes private room conversions billed at a higher rate.

Source: The Corporation

LICENSURE, ACCREDITATION AND MEMBERSHIPS

The Retirement Center, including the Assisted Living Unit and the Dementia Unit, are licensed by the State of California Department of Social Services ("Social Services") as a residential care facility for the elderly ("RCFE"). The basis for this licensure is Social Services' determination that the Retirement Center, including the Assisted Living Unit and the Dementia Unit, has complied with specific requirements of California law related to RCFEs. The Skilled Nursing Facility is licensed by the California Department of Public Health ("Health Services") as a skilled nursing facility. The basis for this licensure is Health Services' determination that the Skilled Nursing Facility has complied with California laws relating to skilled nursing facilities.

The Corporation has received a certificate of authority ("COA") issued by Social Services, Continuing Care Contracts Branch. A COA permits the Corporation to enter into continuing care contracts, defined by the State of California as an express or implied agreement between a person 60 years of age or older and the provider where, in exchange for payment of an entrance fee and/or periodic charges, a promise is made to provide one or more elements of care at a facility for the duration of the resident's life or a period longer than one year. The Corporation must submit annual audited financial statements, reserve reports and key indicators reports to Social Services to maintain its COA.

The Corporation is a member of the Aging Services of California and the American Association of Homes and Services for the Aging.

MARKET AND COMPETITION

Approximately 61% of the Corporation's current residents originated from the area within a ten-mile radius of the Facilities, and approximately 80% lived within San Diego or Orange County. The Corporation identifies five facilities as its primary competitors. Competition may increase in the future with the construction of new facilities or the expansion of existing facilities. The following table sets forth certain relevant information regarding the Corporation's Facilities and those five competing facilities. The information in the table below was gathered by the Corporation through a telephone survey and sources that the Corporation believes to be accurate. The Corporation takes no responsibility for the accuracy or completeness of the information contained in the table below.

Name and Location[1] of Facility	Distance from Casa de las Campanas	Type of Facility	October 2009 Occupancy[2]
Casa de las Campanas, Rancho Bernardo, CA	--	Continuing Care	88%
Redwood Terrace, Escondido, CA	4 miles	Continuing Care	94%
Classic Residence by Hyatt at La Jolla Village, La Jolla, CA	19 miles	Continuing Care	80%
La Costa Glen, Carlsbad, CA	20 miles	Continuing Care	89%
Carlsbad-by-the Sea, Carlsbad, CA	24 miles	Continuing Care	89%
White Sands of La Jolla, La Jolla, CA	26 miles	Continuing Care	84%

(1) Although the Remington Club in Rancho Bernardo and La Jolla Village Towers in La Jolla are also senior residential facilities located near the Facilities, they are currently month-to-month rental facilities, not continuing care facilities, and the Corporation does not consider them to be significant competitors.
(2) Does not include skilled nursing occupancy, if any.

Source: The Corporation

SELECTED FINANCIAL INFORMATION

Summary Balance Sheet and Statement of Operations and Changes in Net Assets

The following financial information for the Corporation for the years ended July 31, 2007, 2008 and 2009 is derived from the supplemental information attached to the audited consolidated financial statements of the Corporation for such periods, and for the four-month periods ended November 30, 2008 and 2009 is derived from the unaudited financial statements of the Corporation, and includes all adjustments that management considers necessary to present such information in conformity with generally accepted accounting principles. The results of operations for the four months ended November 30, 2009 are not necessarily indicative of the operating results to be expected for the entire year ending July 31, 2010. The data set forth in the following table should be read in conjunction with the audited combined financial statements of the Corporation included as Appendix B to this Official Statement, including the supplemental information attached thereto.

While the assets, liabilities, net assets and results of operations of the Casa Foundation, Inc. (the "Foundation") are included in the audited combined financial statements of the Corporation included as Appendix B to this Official Statement, the Foundation is not obligated to make payments with respect to the Bonds. Accordingly, the following financial information excludes the results of the Foundation. See "—Fundraising" below for more information on the Foundation.

SUMMARY BALANCE SHEET

	As of July 31,			As of November 30,	
	2007	2008	2009	2008	2009
				(unaudited)	
Cash and cash equivalents	2,319,671	1,555,072	3,063,818	412,996	975,195
Assets whose use is limited or restricted, required for current liabilities	3,390,993	1,710,647	1,936,972	905,895	2,589,859
Accounts receivable, net	917,899	745,925	797,757	821,178	901,335
Prepaid expenses and other assets	753,698	549,634	1,044,835	1,036,977	969,620
Other receivables	1,120,437	631,286	507,517	514,856	703,408
Total current assets	8,502,698	5,192,564	7,350,899	3,691,902	6,139,417
Assets whose use is limited or restricted, less amounts classified as current	10,669,864	10,000,591	5,247,927	10,547,661	5,372,344
Long-term Investments	29,685,664	31,218,230	22,333,635	18,497,769	23,423,475
Property, buildings and equipment, net	67,437,231	68,617,953	68,737,544	70,191,746	67,701,463
Deferred financing fees, net	1,836,954	1,912,450	1,939,994	1,754,926	1,761,985
Derivative Instrument Asset	578,316	0	0	0	0
Other assets	799,942	1,288,185	1,288,185	1,288,185	1,288,185
Total assets	119,510,669	118,229,973	106,898,184	105,972,189	105,686,869
Accounts payable and accrued expenses	2,610,862	3,263,175	4,190,202	2,455,792	1,991,576
Interest payable	160,519	134,528	90,459	144,994	114,148
Deposits from residents	909,734	621,067	409,869	388,430	410,705
Current portion of obligations under capital leases	49,621	52,325	40,445	40,445	43,632
Current portion of obligations under gift annuity contracts	362,339	379,324	383,679	379,323	383,679
Current portion of estimated refundable entrance fees	644,130	727,377	702,549	0	0
Current portion of long-term debt	0	0	3,934,000	0	3,954,000
Total current liabilities	4,737,205	5,177,796	9,751,203	3,408,984	6,897,740
Obligations under capital leases, net of current portion	137,626	86,478	87,129	113,672	70,796
Obligations under gift annuity contracts, net of current portion	1,870,825	1,851,934	1,763,257	1,794,769	1,696,362
Estimated refundable entrance fees, net of current portion	3,162,866	3,985,056	4,150,441	5,130,768	4,852,990
Long-term debt, net of current portion	45,645,000	45,645,000	41,711,000	45,645,000	39,456,000
Derivative Instrument Liability	0	2,117,890	3,380,027	3,588,921	3,643,695
Deferred revenue from entrance fees	44,865,238	44,490,828	40,196,354	43,458,650	40,811,384
Total liabilities	100,418,760	103,354,982	101,039,411	103,140,764	97,428,967
Net Assets:					
Unrestricted	19,091,909	14,874,991	5,858,773	2,831,425	8,257,902
Total net assets	19,091,909	14,874,991	5,858,773	2,831,425	8,257,902
Total liabilities and net assets	119,510,669	118,229,973	106,898,184	105,972,189	105,686,869

SUMMARY STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

	Fiscal Year Ended July 31,			Four Months Ended November 30,	
	2007	2008	2009	2008 (unaudited)	2009
CHANGES IN UNRESTRICTED ASSETS: REVENUES, GAINS AND OTHER SUPPORT:					
Resident fees earned	$ 26,718,360	$ 28,904,590	30,147,103	9,968,754	10,263,322
Investment income, net	967,018	2,969,293	1,103,599	218,702	94,050
Realized gains on sale of investments	1,198,287	244,737	60,746	(4,439)	36,419
Contributions	465,520	91,850	96,007	726	7,200
Total revenues, gains and other support	$ 29,349,185	$ 32,210,470	31,407,455	10,183,743	10,400,991
OPERATING EXPENSES:					
Resident services	$ 804,484	$872,667	835,847	272,074	234,357
Health center	4,544,340	4,964,963	4,989,175	1,636,320	1,641,607
Assisted living	1,758,831	2,021,860	2,148,295	711,139	719,566
Home health	357,511	413,727	540,015	199,630	227,491
Plant and maintenance	3,735,925	3,587,879	3,453,946	1,187,645	1,076,737
Housekeeping and laundry	1,557,873	1,635,486	1,638,422	567,612	499,457
Food and beverage	4,750,764	5,145,957	5,279,944	1,769,959	1,670,551
General and administrative	3,894,490	3,821,615	3,411,224	1,442,265	1,534,463
Depreciation and amortization	3,903,536	4,433,689	4,791,853	1,524,555	1,584,590
Interest expense	1,826,463	2,340,943	2,629,446	786,525	620,219
Total operating expense	$ 27,134,217	$ 29,238,786	29,718,167	10,097,724	9,809,038
Income from operations	$ 2,214,968	$ 2,971,684	1,689,288	86,019	591,953
Change in fair value of derivative instruments – early termination of swap agreement			(1,006,290)		
NONOPERATING REVENUES (EXPENSES)	(152,362)	(18,084)	8,527	3,889	40,604
LOSS ON EARLY RETIREMENT OF LONG TERM DEBT	(549,979)				
Excess of revenues over expenses	$ 1,512,627	$ 2,953,600	691,525	89,908	632,557
NET UNREALIZED GAIN ON INVESTMENTS	1,196,429	(4,474,312)	(7,833,888)	(10,662,443)	2,030,240
CHANGE IN NET UNREALIZED GAIN (LOSS) ON DERIVATIVE INSTRUMENTS	578,316	(2,696,206)	(1,873,855)	(1,471,031)	(263,668)
Increase (decrease) in unrestricted net assets	$ 3,287,372	$ (4,216,918)	(9,016,218)	(12,043,566)	2,399,129

Sources of Revenues

For the fiscal year ended July 31, 2009, approximately 99.5% of total revenues (exclusive of unrealized gains/losses on investments and contributions) of the Corporation were derived from earned entrance fees, monthly service fees and investment income. Entrance fees are considered "earned" only to the extent that they are (i) net of the portion thereof that is refundable to a resident and (ii) amortized to income for the present year using the straight-line method over the estimated remaining life expectancy of the resident. Approximately 19% of the total revenues were derived from the Skilled Nursing Facility, of which approximately 70% (or approximately 14% of total revenues) were derived from non-resident patients covered by private insurance or responsible for payment. Management anticipates that earned entrance fees and monthly fees paid by residents will continue to be the largest source of revenues for the Corporation. Contribution revenues represent donations from the Foundation to the Corporation. See "—Fundraising."

Cash and investments totaled approximately $25,400,000 of excess reserve funds as of July 31, 2009 and were invested in a highly diversified, no-load portfolio of publicly traded equity and fixed income mutual funds. Market value equity securities are subject to changes in the stock market, which may cause the Corporation's reserves to fluctuate from period to period or suffer a permanent reduction in value. Since fiscal year end 2007, the unrealized investment loss through November 30, 2009 totals approximately $10,278,000 or 22% of the cash and investments of $46,066,192 as of fiscal year end 2007.

The Corporation was certified as a Medicare provider effective February 24, 1989. The certification to be a Medicare provider is subject to annual renewal. The current certificate is effective until February 23, 2010. The income and asset levels of the residents of the Facilities are not expected to permit them to qualify for Medi-Cal. Currently, the Corporation is not qualified to receive reimbursement from the State of California for the care of Medi-Cal eligible patients. The Corporation is a party to other third party payor contracts with entities other than Medicare, but management does not expect revenues derived from such contracts to constitute material portion of the Corporation's revenues, as these revenues currently represent 39% of the Corporation's skilled nursing revenues.

The following table sets forth the sources of revenue for the Skilled Nursing Facility for each of the three fiscal years in the period ended July 31, 2007, 2008 and 2009 and the four months ended November 30, 2009.

	Fiscal Year Ended July 31,			Four Months Ended November 30, 2009
	2007	2008	2009	
Private	29.0%	24.2%	20.3%	16.7%
Life Care Revenues – Casa Resident Contracts	26.2%	27.6%	31.6%	29.9%
Medicare A	37.5%	37.5%	39.5%	39.5%
Medicare B	1.4%	1.6%	2.0%	2.1%
Other Insurance	0.5%	0.5%	0.1%	.3%
Managed Care (HMO)	4.4%	8.5%	6.4%	11.2%
Hospice	1.0%	0.1%	0.1%	.3%
Total	100%	100%	100%	100%

Fundraising

In July 1994, the Corporation formed the Foundation, a California nonprofit public benefit corporation, to provide charitable fund raising services and other constituency services for the exclusive support of the charitable purposes of the Corporation, in providing housing, care and services for the elderly. The Foundation is governed by a 5-member Board of Directors (the "Foundation Board"), which is elected annually. Three Foundation Board members must be members of the Corporation Board of Directors and two Foundation Board members must be residents in good standing of the Facilities. Funds received by the Foundation are distributed to the Corporation as determined by the Foundation Board. During the fiscal year ended July 31, 2009 the Foundation raised approximately $239,000 and distributed approximately $96,000 to the Corporation, compared to the fiscal year ended July 31, 2008, during which the Foundation raised approximately $544,000 and distributed to the Corporation approximately $83,000. While the Foundation's assets, liabilities, net assets and results of activities are included in the combined financial statements of the Corporation set forth in Appendix B to this Official Statement, the Foundation is not obligated to make payments with respect to the Bonds.

Capitalization

The table below presents a summary of (i) the capitalization of the Corporation as of July 31, 2009 and (ii) the capitalization of the Corporation as of July 31, 2009, as adjusted to reflect the issuance of the Bonds and the redemption of the Series 2007 Bonds as if such issuance and redemption had occurred at July 31, 2009.

	July 31, 2009	
	Actual	As Adjusted
	(000's omitted)	
Long-Term Debt:		
The Bonds[1]	$41,711	$53,730
Other Long-Term Debt[2]	71	71
Total Long-Term Debt	41,782	53,801
Unrestricted Net Assets (Deficit)	5,859	5,859
Total Capitalization	47,641	59,660
Total Long-Term Debt as a Percentage		
of Total Capitalization	87.7%	90.2%

(1) Although the par amount of the Bonds is $54,310,000, this does not include the current portion due on September 1, 2010.
(2) Includes long-term portion of capital leases.
Source: The Corporation.

Debt Service Coverage and Days Cash on Hand

The following tables presents the debt service coverage ratios and days cash on hand for the Corporation for the fiscal years ended July 31, 2007, 2008 and 2009. The pro forma debt service coverage ratio for the fiscal year ended July 31, 2009 was adjusted to reflect the ratio of actual amount of income available for debt service during fiscal year 2009 to the maximum annual debt service after the issuance of the Bonds and the redemption of the Series 2007 Bonds.

Debt Service Coverage

	Fiscal Year Ended July 31,		
	2007	2008	2009
Increase/(Decrease) in Unrestricted Net Assets	$ 3,287,372	($ 4,216,918)	($ 9,016,218)
Plus: Interest Expense	1,826,463	2,340,943	2,629,446
Plus: Depreciation & Amortization Expense	3,903,536	4,433,689	4,791,853
Plus: Unrealized <Gain>\Loss Investments	(1,196,429)	4,474,312	7,833,888
Plus: Change in Net Unrealized <Gain>/Loss of Derivative Instrument	(578,316)	2,696,206	$1,873,855
Plus: Early Termination of Swap Agreement			$1,006,290
Plus: Loss on Early Retirement of Long Term Debt	549,979		
Less: Amortization of Deferred Revenue	(7,063,536)	(8,208,015)	(8,166,961)
Plus Net Proceeds from Entrance Fees	9,840,599	8,739,042	4,013,044
INCOME AVAILABLE FOR DEBT SERVICE	$10,569,668	$10,259,259	$4,965,197
ANNUAL DEBT SERVICE[1]	$2,461,657	$2,397,827	$2,536,788
DEBT SERVICE COVERAGE RATIO	4.3	3.2	2.0
Pro Forma Maximum Annual Debt Service	$3,986,500	$3,986,500	$3,986,500
Ratio of Pro Forma Maximum Annual Debt Service Coverage (times)	2.7	2.6	1.2

(1) Includes Series 2007 Bonds and capital leases.
Source: The Corporation.

Days Cash on Hand

	As of July 31,		
	2007	2008	2009
Cash and Cash Equivalents	$ 2,319,671	$ 1,555,072	3,063,818
Long-Term Investments	29,685,664	31,218,230	22,333,635
Total Unrestricted Cash & Investments	32,005,335	32,773,302	25,397,434
Cash Operating Expenses	23,230,681	24,805,097	24,926,314
Average Daily Cash Expenses	63,646	67,959	68,291
Days Cash on Hand Ratio	502.9	482.3	371.2

Source: The Corporation.

Management's Discussion of Financial Performance

Financial Position As Of July 31, 2007 and 2008. The Corporation's total assets as of July 31, 2008 decreased by $1,280,696 when compared to July 31, 2007. Cash and equivalents decreased by $764,599 as a result of capital expenditures. Assets whose use is limited for current liabilities decreased by $1,680,346 as a result of decrease in the 90 day sales reserves for the entrance fees received as compared to last year. Prepaid expenses and other assets decreased by $204,064 as a result of timing of payments for the Corporation's general insurance renewal. Other receivables decreased by $489,151 as a result of reclassifying a portion of the workers compensation reserves from the current receivable to the long-term category, Other Assets. Assets whose use is limited, less amounts classified as current decreased by $669,273 as a result of assets held under the bond indenture. Long term investments increased by $1,532,566 due to positive cashflow with the receipt of approximately $8,700,00 in net entrance fees. Property, buildings and equipment, net increased by $1,180,722 as the Corporation completed improvements to the main kitchen. Derivative instrument assets decreased by $578,316 as LIBOR interest rates declined and caused the market value of the interest rate management agreements to become negative.

The Corporation's total liabilities as of July 31, 2008 increased by $2,936,222 when compared to July 31, 2007. Accounts payable increased by $652,313 as a result of final payments due on the main kitchen renovation & construction. Deposits from residents decreased by $288,667 due to the decrease in waitlist deposits. Estimated refundable entrance fees, net of current portion increased by $822,190 due to an increase in the estimated refundable entrance fees based on prior experience. Derivative instrument liability increased by $2,117,890 as LIBOR interest rates declined and caused the market value of the interest rate management agreements to decline. Deferred revenue from entrance fees decreased by $374,410 due to amortization of prior entrances and mortalities exceeding the receipt of new entrance fees.

Compared to as of July 31, 2007, unrestricted net assets decreased by $4,216,918 as of July 31, 2008, primarily due to unrealized losses in the value of investments and the unrealized loss on the derivative instruments.

Operating Results for the Years Ended July 31, 2007 and 2008. The Corporation's total revenues, gains and other support for the year ended July 31, 2008 increased by $2,861,285 from the year ended July 31, 2007. This increase was primarily due to a increase in resident fees earned of $2,186,230 primarily due to the price increase of 4.65% and the $2,002,275 increase in investment income with the additional funds reimbursed to the Corporation for prior capital expenditures of $16,900,000 with the proceeds of the Series 2007 Bonds issued in May 2007. These increases were offset by the $953,550 decrease in realized gains during 2008 and a $373,670 decrease in contributions from the Foundation.

The Corporation's operating expenses increased $2,104,569, from $27,134,217 for the year ended July 31, 2007 to $29,238,786 for the year ended July 31, 2008, due primarily to a $530,153 increase in depreciation and amortization, $514,480 increase in interest expense with the Series 2007 Bonds and increased bond borrowings of $16,900,000 included in the Series 2007 Bonds. Health center, and food and beverage expenses increased by $420,623 and $395,193, respectively, due to wage and benefit increases, which generally affected all departments, across the board, and the increased Health Center census. Assisted living expenses increased by $263,029 due to the expanded operations as the special care dementia unit utilization increased.

Income from operating increased by $756,716 in fiscal year 2008 compared to fiscal year 2007. Non-operating revenues (expenses) increased by $134,278 as result of the prior fiscal year 2007 loss on disposal of assets. Additionally, the Corporation had a $549,979 loss on early retirement of long-term debt. Thus, excess revenues over expenses increased by $1,440,973 in fiscal year 2008 compared to fiscal year 2007.

Financial Position As Of July 31, 2008 and 2009. The Corporation's total assets as of July 31, 2009 decreased by $11,331,789 when compared to July 31, 2008. Cash and equivalents increased by $1,508,746 as a result of funds held to pay off the $1,793,000 swap termination payment for the swap agreement related to the Series 2007B Bonds in August 2009. Assets whose use is limited for current liabilities increased by $226,325 as a result of the increased 90 day sale reserves based on the entrance fees received as compared to one year ago. Prepaid expenses and other assets increased by $495,201 as a result of the prepayment of the Corporation's general insurance and workers compensation premiums. Assets whose use is limited, less amounts classified as current decreased by $4,752,664 as a result of a previous refund reserve requirement funded by investments in fiscal year 2008, that in fiscal year 2009 is met by a lien on the Facilities. In fiscal year 2009, the lien was approximately $5,100,000. Long-term investments decreased by $8,884,595 primarily due to unrealized investment losses.

The Corporation's total liabilities as of July 31, 2009 decreased by $2,315,571 when compared to July 31, 2008. Accounts payable increased by $927,027 as a result of the swap termination payment for the swap agreement related to the Series 2007B Bonds accrued in fiscal year 2009 for $1,793,000. Deposits from residents decreased by $211,198 due to the decrease in waitlist deposits. The current portion of long term debt increased by $3,934,000, while long term debt, net of current portion decreased by that amount, due to the expiration of the letter of credit and the resulting amortization of the long term debt over 20 quarterly payments according to the terms of the expired letter of credit for the Series 2007B Bonds and the first scheduled Series 2007A bond payment due in September 2009. Derivative instrument liability increased by $1,262,137 as LIBOR interest rates continued to decline and caused the market value of the interest rate management agreements to decline. Deferred revenue from entrance fees decreased by $4,294,474 due to the amortization of prior entrances and mortalities exceeded the receipt of new entrance fees.

Compared to as of July 31, 2008, unrestricted net assets decreased by $9,016,218 as of July 31, 2009 due primarily to unrealized losses in the value of investments and the unrealized loss on the derivative instruments.

Operating Results for the Years Ended July 31, 2008 and 2009. The Corporation's total revenues, gains and other support for the year ended July 31, 2009 decreased by $803,015 from the year ended July 31, 2008. Of this change, resident fees earned increased by $1,242,513 due to the price increase of 4% for all residents revenues. Investment income decreased by $1,865,694 as a result of the turmoil in the financial markets with lower interest and dividend income. Realized gains on sale of securities decreased by $183,991 due to downward trends in the financial markets. Contributions increased by $4,157 due to contributions from the Casa Foundation.

The Corporation's operating expenses increased $479,381, from $29,238,786 for the year ended July 31, 2008 to $29,718,167 for the year ended July 31, 2009. Assisted living expenses increased $126,435 due to increases in the census levels. Home health expenses increased $126,288 due to the increased utilization, consistent with the increase in the revenues. Plant and Maintenance expenses decreased by $133,933 due to decreased wages and benefits. Food and Beverage expenses increased by $133,987 due to increased inflationary costs relating to all areas. General and administrative expenses decreased by $410,391 due to decreased bond related costs and favorable workers compensation reserve adjustments.

Income from operating decreased by $1,282,396 in fiscal year 2009 compared to fiscal year 2008. Non-operating revenues (expenses) increased by $26,611 as result of the prior fiscal year 2008 loss on disposal of assets. Additionally, the Corporation terminated the swap agreement related to the Series 2007B Bonds with a $1,006,290 early termination loss. Thus, excess revenues over expenses decreased by $2,262,075 in fiscal year 2009 compared to fiscal year 2008.

Financial Position As of November 30, 2008 and 2009. The Corporation's total assets as of November 30, 2009 decreased by $285,320 when compared to November 30, 2008. Cash and equivalents increased by $562,199 as a result of favorable investment returns. Assets whose use is limited for current liabilities increased by $1,683,964 as a result of the significant increase in 90 day sale reserves based on the entrance fees received as compared to one year ago. Assets whose use is limited, less amounts classified as current decreased by $5,175,317 as a result of the release on the restricted assets for the Department of Social Services refund reserve that is met by a lien on the property. Long-term investments increased by $4,925,706 due to the favorable investment returns and the release of the refund reserve as noted above. Property, buildings and equipment, net decreased by $2,490,283 due to depreciation expense over the last year.

The Corporation's total liabilities as of November 30, 2009 decreased by $5,711,797 when compared to November 30, 2008. Accounts payable decreased by $464,216 as a result of prior year construction invoices for the main kitchen. Current portion of long term debt increased by $3,954,000 as of November 30, 2009 compared to 2008 due to the expiration of the letter of credit and the resulting amortization of the long term debt over 20 quarterly payments according to the terms of the expired letter of credit for the Series 2007B Bonds and the second scheduled Series 2007A bond payment due in September 2010. Estimated refundable entrance fees, net of current portion decreased $277,778 compared to 2008 due to a decrease in the estimated refundable entrance fees based on prior experience. Long term debt decreased by $6,189,000 and is related to the current bond liability as noted above and principal bond payments. Deferred revenue from entrance fees decreased by $2,647,266 due to the amortization of prior entrances and mortalities exceed the receipt of new entrance fees.

Compared to November 30, 2008, unrestricted net assets increased by $2,399,129 as of November 30, 2009 primarily to unrealized gains in the value of investments of $2,030,240, favorable operating results of $632,557 offset by the unrealized loss on the derivative instruments of $263,668.

Operating Results for the Four-months Ended November 30, 2009 and 2008. The Corporation's total revenues, gains and other support increased approximately $217,248 from $10,183,743 for the four-months ended November 30, 2008 to $10,400,991 for the four months ended November 30, 2009. This increase was primarily due to the price increase of 5.5% for all residents and entrance fee amortization income recognized for mortalities.

The Corporation's operating expenses decreased approximately $288,686, from $10,097,724 for the four months ended November 30, 2008 to $9,809,038 for the four months ended November 30, 2009, primarily due to Plant and Maintenance expenses decreased by $110,908 due to decreased wages, benefits, and utility costs. Food and Beverage expenses decreased by $99,408 due to decreased wage and benefit costs.

The Corporation's revenues, gains and other support exceeded operating expenses by approximately $591,953 for the four months ended November 30, 2009, compared to an excess of operating revenues over operating expenses of $86,019 for the four months ended November 30, 2008. The Corporation's decrease in unrestricted net assets was $12,043,566 for the four months ended November 30, 2008 compared to an increase of $2,399,129 for the four months ended November 30, 2009. Included in the November 2009 results was an unrealized gain on investments for $2,030,240 and a unrealized loss on derivative instruments of $263,668, compared to an unrealized loss of $10,662,443 and unrealized loss on derivative of $1,471,031 for November 2008.

Liquidity and Investment Policy

The Corporation's liquidity position (composed of unrestricted cash equivalents, short-term investments and long-term investments) as of July 31, 2009 was $25,397,453 and as of November 30, 2009 was $24,398,670. Since fiscal year end 2007, the unrealized investment loss through November 30, 2009 totals approximately $10,278,000 or 22% of the cash and investments of $46,066,192 as of fiscal year end 2007. The Corporation's liquid cash and investments are managed according to an investment policy adopted by the Board of Directors.

Investment earnings and realized gains on sales of securities constitute a portion of the Corporation's total operating revenue. Due to variations in market performance as well as timing of the sale of securities, the level of investment earnings and realized gains reflected in the Corporation's statement of operations might vary significantly from year to year.

Swap Agreements

In connection with the issuance of the Series 2007 Bonds, the Corporation has entered into four interest rate exchange agreements, two of which terminated after one year. Additionally, the swap agreement related to the Series 2007B Bonds terminated in late July 2009 with a termination payment of $1,793,000 paid by the Corporation in August 2009 (Fiscal Year 2010). The only remaining swap agreement is the Series 2007A Bonds, which will be terminated concurrently with the issuance of the Bonds.

See "PLAN OF FINANCE – Interest Rate Swap Transaction" and "BONDHOLDERS' RISKS – Interest Rate Swap and Other Hedge Risk" in the Original Official Statement.

Budget Process

The Corporation is managed under a budgetary plan adopted each year by its Board of Directors. Department directors prepare management plans and operational budgets with detailed input from other members of the staff. Senior management, with input from the Resident Finance Committee and Resident Executive Council, recommends the final budget that is presented to the Board of Directors for approval.

The budgeting process begins each January with the establishment of a budget timetable, budget process and service demand projections. The budget is completed and presented to the Board of Directors for approval by June each year, for implementation at the beginning of the next fiscal year. Senior management meets regularly to review operational performance and plan corrective actions as necessary.

INSURANCE MATTERS

The Corporation is insured for comprehensive liability, including corporate, general, commercial property, automobile, umbrella, boiler and machinery, crime, and professional liability, under a combination of commercial insurance policies with American Home Assurance, Lexington Insurance, Mt. Hawley Insurance Co., National Union Fire Insurance, and Zurich American Insurance, with limits and excess coverage that management considers adequate and similar to those of other comparable facilities. Insurance does not provide coverage for judgments for punitive damages. The Corporation is self-insured for workers' compensation claims beginning the year ended July 31, 2004 up to a maximum of $250,000 per occurrence. Self-insured losses are accrued based on the Corporation's estimates of the aggregate liability for uninsured claims incurred using the Corporation's experience resulted in a worker's compensation receivable of approximately $1,288,000 at July 31, 2009 and 2008, and $800,000 at July 31, 2007 and is included in other receivables and other assets in the accompanying consolidated statements of financial position. The Corporation also maintains earthquake insurance for the Facilities with a limit of $10 million through June 30, 2010. In addition, the Corporation maintains directors' and officers' liability coverage through the National Union Fire Insurance Co. of up to $8 million. While the Corporation considers the Corporation's insurance coverage to be adequate, the Corporation is unable to predict the availability or cost of such insurance in the future.

CORPORATION GOVERNANCE

Pursuant to the Corporation's bylaws, control of the Corporation is vested in a Board of Directors consisting of 9 members. Directors are eligible to serve up to three consecutive three-year terms. The Directors may receive such compensation as may be determined by the Board.

The Board of Directors of the Corporation currently consists of the following persons:

Name	Position	Occupation	Term Expires (December)
Marcy Kaye		Attorney	2017
James J. Beeman	Vice-Chair	Retired, Corporate VP	2013
William J. Carlson	Secretary	Retired, Construction VP	2012
Robert Wells		Retired, Sales Manager of Business Equipment Division	2018
Dr. Donald G. Haught	Chairman	School Administration & HR Management Consultant	2012
Robin Jensen		CFO – Long Term Care	2014
Dr. Patricia Schmidt		Retired, Nursing Professor	2014
Steve Riddle		Retired, Banking VP	2016
Robert W. Trettin		Consultant	2015

MANAGEMENT AGENT

The Facilities currently are managed by LCS pursuant to a management agreement (the "Management Agreement") between LCS and the Corporation. LCS is an Iowa for profit limited liability company with administrative headquarters in Des Moines. In addition to managing the Facilities, LCS manages approximately 79 other continuing care retirement communities, skilled nursing facilities and assisted living facilities nationwide and operates Medicare-certified home health agencies. LCS is not required to advance any of its funds (and does not advance funds) to cover any operating deficits of the facilities it manages, including the Facilities. LCS has been in the business of owning and/or managing continuing care retirement facilities similar to the Facilities for over 38 years.

LCS has been managing the Facilities since January 1, 1997. The term of the current Management Agreement commenced on August 1, 2009, and will be effective through July 31, 2014. Pursuant to the terms of the Management Agreement, LCS provides technical and advisory assistance for all operations of the Facilities; participates in and renders advice and assistance with respect to the marketing of units in the Retirement Center; prepares budget information, periodic financial statements and the various certifications and reports required under the Loan Agreement; and performs the normal business functions and otherwise operates and manages the business affairs of the Corporation with respect to the Facilities, all subject to the control and supervision of the Corporation's Board of Directors. For services performed under the Management Agreement, LCS currently receives monthly fees consisting of a fixed management fee of $45,000 till December 31, 2010. Subsequently, the monthly management fee will increase every calendar year by the CPI – Urban index subject to a 3% maximum increase until the expiration or earlier termination of the Management Agreement, plus certain annual incentive compensation to be determined by an evaluation of a combination of various factors, including, without limitation, resident satisfaction, employee turnover, safety goals, DHS surveys, and Facilities census; provided, however, that the incentive compensation paid for each of the fiscal years may not exceed $70,000. For the fiscal year ended July 31, 2008, LCS earned an incentive fee of $20,000 and fiscal year ended July 31, 2009 is estimated at $15,000.

EMPLOYEES

As of November 30, 2009, approximately 290 full-time equivalent ("FTE") employees were employed at the Facilities. This total included 205 FTEs at the Retirement Center, including the Assisted Living Unit and the Dementia Unit, and 85 FTEs at the Skilled Nursing Facility. All of the FTEs at the Facilities are Corporation employees with the exception of the two senior management staff, who are LCS employees and two food management staff from Morrison Dining Services.

The Corporation provides compensation and a range of fringe benefits to its employees that management believes are competitive. Currently, none of the Corporation's employees is represented by a union and management is unaware of any union organizing activity at the Facilities. Management regards its relations with all employee groups as good, based on recurring employee surveys.

APPENDIX B

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CASA DE LAS CAMPANAS, INC.

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CASA DE LAS CAMPANAS

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

JULY 31, 2009 AND 2008

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To the Members of the
Audit Committee of
Casa de las Campanas
Rancho Bernardo, California

Independent Auditors' Report

We have audited the accompanying consolidated balance sheets of Casa de las Campanas as of July 31, 2009 and 2008, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of Casa de las Campanas' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Casa de las Campanas' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Casa de las Campanas as of July 31, 2009 and 2008, and the results of operations and changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Kellogg + Andelson

November 20, 2009

CASA DE LAS CAMPANAS
CONSOLIDATED BALANCE SHEETS
JULY 31, 2009 AND 2008

ASSETS

	2009	2008
CURRENT ASSETS:		
Cash and cash equivalents	$ 3,063,926	$ 1,559,640
Assets whose use is limited or restricted, required for current liabilities	2,103,531	1,864,925
Short-term investments	13,337	91,861
Accounts receivable, net of allowance for doubtful accounts of $77,312 and $50,236, respectively	797,757	745,925
Prepaid expenses and other current assets	1,044,835	549,634
Contributions receivable	23,750	-
Other receivables	507,517	631,286
Total current assets	7,554,653	5,443,271
ASSETS WHOSE USE IS LIMITED OR RESTRICTED, less amounts classified as current	6,226,867	11,061,818
LONG-TERM INVESTMENTS	24,363,324	34,218,700
PROPERTY, BUILDINGS, AND EQUIPMENT, net	69,061,340	68,923,269
DEFERRED FINANCING FEES, net	1,939,994	1,912,450
OTHER ASSETS	1,288,185	1,288,185
Total assets	$ 110,434,363	$ 122,847,693

LIABILITIES AND NET ASSETS

	2009	2008
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 4,193,237	$ 3,266,312
Interest payable	90,459	134,528
Deposits from residents	409,869	621,067
Current portion of obligations under capital leases	40,445	52,325
Current portion of obligations under gift annuity contracts	383,679	379,324
Current portion of estimated refundable entrance fees	702,549	727,377
Current portion of long-term debt	3,934,000	-
Total current liabilities	9,754,238	5,180,933
OBLIGATIONS UNDER CAPITAL LEASES, net of current portion	87,129	86,478
OBLIGATIONS UNDER GIFT ANNUITY CONTRACTS, net of current portion	1,763,257	1,851,934
ESTIMATED REFUNDABLE ENTRANCE FEES, net of current portion	4,150,441	3,985,056
DEFERRED REVENUE, pooled income funds	108,142	137,491
LONG-TERM DEBT, net of current portion	41,711,000	45,645,000
DEFERRED REVENUE FROM ENTRANCE FEES	40,196,354	44,490,828
DERIVATIVE INSTRUMENTS	3,380,027	2,117,890
Total liabilities	101,150,588	103,495,610
COMMITMENTS AND CONTINGENCIES	-	-
NET ASSETS:		
Unrestricted	7,086,959	16,964,757
Temporarily restricted	957,487	1,154,647
Permanently restricted	1,239,329	1,232,679
Total net assets	9,283,775	19,352,083
Total liabilities and net assets	$ 110,434,363	$ 122,847,693

The accompanying notes are an integral part
of the consolidated financial statements

CASA DE LAS CAMPANAS
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JULY 31, 2009 AND 2008

	2009	2008
CHANGES IN UNRESTRICTED NET ASSETS:		
REVENUES, GAINS AND OTHER SUPPORT:		
Resident fees earned, including amortization of deferred revenues from non-refundable entrance fees of $6,451,070 and $6,665,503, respectively	$ 30,147,103	$ 28,904,590
Investment income, net	1,152,255	3,083,007
Net realized gains on sale of investments	47,288	224,199
Net assets released from restrictions, used for operations	63,525	135,517
Contributions	135,933	347,597
Total revenues, gains and other support	31,546,104	32,694,910
OPERATING EXPENSES:		
Resident services	835,847	872,667
Health center	4,989,175	4,964,963
Assisted living	2,148,295	2,021,860
Home health	540,015	413,727
Plant and maintenance	3,453,946	3,587,879
Housekeeping and laundry	1,638,422	1,635,486
Food and beverage	5,279,944	5,145,957
Donation expense	42,789	60,300
General and administrative	3,530,673	3,967,192
Depreciation and amortization	4,791,961	4,433,949
Interest expense	2,629,446	2,340,943
Total operating expenses	29,880,513	29,444,923
Income from operations	1,665,591	3,249,987
NONOPERATING REVENUES (EXPENSES)		
Change in value of gift annuity contracts	(607,861)	(279,193)
Change in fair value of derivative instruments - early termination of swap agreement	(1,006,290)	-
Other income (expenses)	8,527	(18,084)
Total nonoperating revenues (expenses)	(1,605,624)	(297,277)
Excess of revenues over expenses	$ 59,967	$ 2,952,710

The accompanying notes are an integral part
of the consolidated financial statements

CASA DE LAS CAMPANAS
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS - CONTINUED
FOR THE YEARS ENDED JULY 31, 2009 AND 2008

	2009	2008
CHANGES IN UNRESTRICTED NET ASSETS:		
Excess of revenues over expenses	$ 59,967	$ 2,952,710
Net unrealized (losses) on investments	(8,120,031)	(4,632,913)
Change in fair value of derivative instruments	(1,873,855)	(2,696,206)
Net assets released from restrictions, used for capital expenditures	56,121	36,935
(Decrease) in unrestricted net assets	(9,877,798)	(4,339,474)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	96,436	153,060
Investment income	22,281	47,742
Realized (losses) on sale of investments	(599)	(11,190)
Net unrealized (losses) on investments	(53,201)	(62,509)
Net assets released from restrictions, used for operations	(61,525)	(163,452)
Net assets released from restrictions, used for capital expenditures	(56,121)	(36,935)
Net assets released from unrestricted to temporarily restricted	-	27,935
Net assets transferred from temporarily restricted to permanently restricted	(2,000)	-
Change in value of gift annuity contracts	(167,229)	(43,672)
Change in value of charitable remainder trusts and pooled income funds	24,798	(10,536)
(Decrease) in temporarily restricted net assets	(197,160)	(99,557)
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:		
Contributions	4,650	43,553
Net assets transferred from temporarily restricted to permanently restricted	2,000	-
Increase in permanently restricted net assets	6,650	43,553
(Decrease) in net assets	(10,068,308)	(4,395,478)
NET ASSETS BEGINNING OF YEAR	19,352,083	23,747,561
NET ASSETS END OF YEAR	$ 9,283,775	$ 19,352,083

The accompanying notes are an integral part
of the consolidated financial statements

CASA DE LAS CAMPANAS
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JULY 31, 2009 AND 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from residents and third party payors	$ 22,261,267	$ 20,890,149
Proceeds from entrance fees	4,446,705	10,282,658
Unrestricted contributions	112,183	413,485
Investment income received, net	1,152,255	3,083,007
Cash paid to suppliers and employees	(23,969,969)	(21,720,570)
Cash paid for interest on long-term debt and capital lease obligations	(2,497,224)	(2,348,019)
Cash paid for interest on resident deposits	(1,716)	(3,306)
Net cash and cash equivalents provided by operating operations	1,503,501	10,597,404
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(4,755,555)	(5,485,230)
Redemptions of investments	31,104,250	2,311,058
Purchases of investments	(25,529,785)	(6,027,718)
Net cash and cash equivalents provided by (used in) investing activities	818,910	(9,201,890)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Refunds of entrance fees	(433,661)	(1,543,616)
Refunds of resident deposits	(237,250)	(284,750)
Principal payments on obligations under capital leases	(39,564)	(49,808)
Letter of credit fees	(298,160)	(340,263)
Restricted contributions and investment income	190,510	58,586
Net cash and cash equivalents (used in) financing activities	(818,125)	(2,159,851)
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,504,286	(764,337)
CASH AND CASH EQUIVALENTS, beginning of year	1,559,640	2,323,977
CASH AND CASH EQUIVALENTS, end of year	$ 3,063,926	$ 1,559,640

The accompanying notes are an integral part
of the consolidated financial statements

CASA DE LAS CAMPANAS
CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED
FOR THE YEARS ENDED JULY 31, 2009 AND 2008

	2009	2008
RECONCILIATION OF DECREASE IN NET ASSETS TO NET CASH AND CASH EQUIVALENTS PROVIDED BY OPERATING ACTIVITIES:		
(Decrease) in net assets	$ (10,068,308)	$ (4,395,478)
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,791,961	4,433,949
Non-cash contributions	(18,588)	(40,847)
Amortization of entrance fees	(6,451,070)	(6,665,503)
Forfeited entrance fees	(1,715,891)	(1,542,512)
Proceeds from entrance fees	4,446,705	10,282,658
Loss on disposal of equipment	143,062	136,949
Realized (gain) on sale of investments	(46,689)	(213,008)
Change in fair value of derivative instruments	2,048,847	2,696,206
Early termination of swap agreement, net	(786,710)	-
Net unrealized loss on investments	8,173,232	4,695,422
Restricted contributions and investment (loss)	(190,510)	(58,586)
Change in value of charitable remainder trusts and pooled income funds	24,798	10,536
Change in the value of gift annuity contracts	775,090	43,672
Changes in operating assets and liabilities:		
Accounts receivable, net	(51,832)	171,974
Prepaid expenses and other current assets	(495,201)	204,064
Contributions receivable	(23,750)	233,958
Other receivables	123,769	489,151
Other assets	-	(488,243)
Accounts payable and accrued expenses	926,925	634,856
Interest payable	(44,069)	(25,991)
Deposits from residents	26,052	(3,917)
Obligations under gift annuity contracts	(84,322)	(1,906)
Net cash and cash equivalents provided by operating activities	$ 1,503,501	$ 10,597,404

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

	2009	2008
Equipment purchased under capital leases	$ 28,335	$ 1,364
Donated art collection	$ 18,588	$ 40,847

The accompanying notes are an integral part
of the consolidated financial statements

CASA DE LAS CAMPANAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - DESCRIPTION OF BUSINESS

The consolidated financial statements include the financial statements of Casa de las Campanas and Casa Foundation (collectively, the "Organization").

Casa de las Campanas ("Casa") was incorporated on September 19, 1990 as a California nonprofit corporation for the purposes of constructing, owning and operating a continuing care retirement community. The facilities include 380 independent living units, an 33 assisted living units with a capacity of 44 beds, an 18 dementia/assisted living units with a capacity of 27 beds, and an adjacent 99-bed skilled nursing facility. Casa provides housing, health care and other related services to the elderly honoring their dignity and promoting independence.

Casa operates under the "continuing care" concept whereby residents enter into agreements that require payment of a one-time entrance fee and a monthly service charge. Generally, these payments will entitle residents to the use and privileges of the facility for life. The residence agreement does not entitle the residents to an ownership interest in the property.

Casa Foundation (the "Foundation"), a California non-profit public benefit corporation, was established in 1994 to solicit contributions from the general public in support of Casa. The Foundation Board of Directors consists of five members, three of whom are also members of Casa Board of Directors, and the remaining two are Casa residents in good standing. Funds of the Foundation are distributed exclusively to Casa for the benefit of its residents as determined by the Foundation's Board of Directors. The Foundation's assets, liabilities, net assets, and results of operations are included in the accompanying consolidated financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Casa de las Campanas and Casa Foundation. All significant intercompany balances have been eliminated in consolidation. Presentation of financial statements follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 116, *"Accounting for Contributions Received and Contribution Made" and SFAS* No. 117, *"Financial Statements of Not-for-Profit Organization."* Under SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Presentation – Continued

Unrestricted contributions are recognized as an increase in unrestricted net assets when received. Contributions restricted by the donors are reported as increases in temporarily or permanently restricted net assets depending on the nature of the donor-imposed restrictions. When restrictions are satisfied, either by the passage of time or by the accomplishment of purpose, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions.

Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA)

As of July 31, 2009, the Organization adopted the Financial Accounting Standards Board (FASB) Staff Position (FSP) 117-1, "*Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds.*" FSP 117-1 provides guidance on the net asset classification and reporting of donor-restricted endowment funds for not-for-profit organizations that are subject to an enacted version of UPMIFA. FSP 117-1 also improves disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds), whether or not the organization is subject to UPMIFA.

The UPMIFA was signed into law in California (CPMIFA) on September 30, 2008, and is applicable to institutional funds established, and to decisions made or actions taken with respect to existing institutional funds, on or after January 1, 2009.

Cash and Cash Equivalents

Cash equivalents include certain highly liquid investments with original maturities of three months or less.

Assets Whose Use is Limited or Restricted

Assets whose use is limited or restricted include (a) investments held by trustees and the Organization under bond indenture agreements, (b) investments set aside to comply with continuing care refund, debt service, operating expenses and insurance reserve requirements, (c) investments held in escrow accounts for subscription and wait list deposit obligations, and (d) net assets restricted by donors. These assets include cash and cash equivalents and investments in debt and equity securities, which are stated at fair value in the accompanying consolidated financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Investments

The Organization accounts for all its investments in accordance with SFAS No. 124, "*Accounting for Certain Investments Held by Not-for-Profit Organizations.*" As such, investments are measured at fair value in the consolidated balance sheets. Investment income or loss (including interest, dividends, and realized gains or losses) is included in the excess of revenues over expenses unless the income is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenues over expenses, unless the investments are trading securities.

Contributions Receivable

The Organization has adopted SFAS No. 116, *"Accounting for Contributions Received and Contributions Made"*. In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Contributions where donor restrictions are met within the same fiscal year as the contribution are included in unrestricted net assets. Contributions of assets other than cash are recorded at their estimated fair value.

Property, Buildings, and Equipment

Property, buildings, and equipment are carried at historical cost, and depreciation and amortization is provided using the straight-line method over estimated useful lives as follows: buildings and improvements, 40 years; property under capital leases, 3 to 5 years; furniture and equipment, 3 to 15 years; and vehicles, 3 to 5 years.

Impairment of long-lived assets is recognized whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Measurement of the amount of impairment may be based on market values or similar assets or estimates of future discounted cash flows resulting from use and ultimate disposition of the assets.

Deferred Financing Fees

Deferred financing fees include costs related to the issuance of long-term debt (see Note 10) and are being amortized over the term of the related debt. Deferred financing fees also include fees paid to obtain a Direct Pay Letter of Credit during the years ended July 31, 2009 and 2008 (see Note 10), which are being amortized over the term of the letter of credit. Amortization expense related to deferred financing fees was $270,616 and $264,766 for the years ended July 31, 2009 and 2008, respectively, and is included in depreciation and amortization expense in the accompanying consolidated statements of operations and changes in net assets.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Deposits from Residents

Deposits from residents represent entrance fees received prior to occupancy and are accounted for as liabilities of Casa, as they are refundable in accordance with the terms of the residence agreements.

Estimated Refundable Entrance Fees

Estimated refundable entrance fees are recorded based on Casa's estimate of future refunds to current residents under the terms of the contracts in force and are based on current and historical refund experience.

Obligation to Provide Future Services

Casa annually calculates the present value of the net cost of future services and the use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from entrance fees. If the present value of the net cost of future services and the use of facilities exceeds the deferred revenue from entrance fees, a liability is recorded (obligation to provide future services and use of facilities) with the corresponding charge to income. The obligation is discounted at 4.31% and 4.59% in 2009 and 2008, respectively, based on the expected long-term rate of return on government obligations. At July 31, 2009 and 2008, the present value of the net cost of future services and the use of facilities did not exceed deferred revenue from entrance fees. Consequently, a liability has not been recorded.

Entrance Fees

Fees paid by a resident upon entering into a continuing care retirement contract, net of estimated future refunds, are recorded as deferred revenue from entrance fees and are amortized to income using the straight-line method over the estimated remaining life expectancy of the resident.

Lump sum entrance fees are amortized to determine the amount of fees to be included in revenues, in the manner prescribed by Statement of Position (SOP) 90-8, issued by the American Institute of Certified Public Accountants. The amount to be included is calculated by dividing the unamortized entrance fee by the current life expectancy of each resident and summing the results for all residents. The Life Expectancy Tables as published in Section 1792.2 of the State of California Continuing Care Contract Statutes are used in making the above computations. The unamortized portion is shown in the consolidated balance sheets as deferred revenue from entrance fees.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Entrance Fees - Continued

Entrance fees and the unamortized portion of entrance fees are summarized as follows:

	Total Entrance Fees	Unamortized Entrance Fees
Balance at July 31, 2007	$ 90,011,132	$ 48,672,234
Sale of contracts	10,282,658	10,282,658
Deceased residents	(4,684,538)	(1,681,263)
Resident withdrawals	(1,782,855)	(1,404,865)
Amortization of continuing care contracts	-	(6,665,503)
Balance at July 31, 2008	93,826,397	49,203,261
Sale of contracts	4,446,705	4,446,705
Deceased residents	(5,456,745)	(1,697,731)
Resident withdrawals	(814,000)	(451,821)
Amortization of continuing care contracts	-	(6,451,070)
Balance at July 31, 2009	$ 92,002,357	$ 45,049,344

The amount shown in the consolidated financial statements for unamortized entrance fees has been reduced by the amount set up as a liability for refunds of $4,852,990 and $4,712,433 at July 31, 2009 and 2008, respectively.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Organization have been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Organization in perpetuity.

Resident Service Fees

Resident services fees are recorded net of the provision for contractual allowances. The contractual allowance represents the difference between established rates and per diem reimbursement.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Resident Assistance

Casa provides care to residents who meet certain criteria under its resident assistance program at amounts less than its established rates. Casa maintains records to identify and monitor the level of assistance it provides. Because Casa does not pursue collection of amounts determined to qualify as resident assistance, they are not reported as resident fees earned. The following summary represents the fees charged for such services for the years ended July 31, 2009 and 2008:

	2009	2008
Resident assistance	$ 165,473	$ 221,438

Split-Interest Agreements

The following instruments are recorded as income or net assets at the present value of Casa's beneficiary interest:

Charitable Remainder Trusts – The Foundation is the beneficiary of two charitable remainder trust agreements (the "Trusts"). The Trusts are irrevocable, and the beneficiary designation may not be changed. Upon the death of the beneficiaries, or other termination of the trusts as defined, the remaining trust assets become the property of the Foundation as stipulated in the trust agreements. The beneficial interest in the Trusts is recorded at the expected fair value to be received by the Foundation. The Foundation calculated the expected fair value using the fair value of the trust at year-end, discounted at a rate of 3.40% over the life expectancy of the Trusts beneficiaries. The change in fair value of the Trusts is reflected in the consolidated statements of operations and changes in net assets. All beneficial interests in charitable remainder trust are included in the accompanying consolidated balance sheets under assets whose use is limited or restricted and are classified as long-term.

Charitable Gift Annuities – Donors have contributed assets to Casa in exchange for a promise by Casa to pay a fixed amount for a specified period of time to the donor or to individuals or organizations designated by the donor. Under the terms of such agreements, no trust exists as the assets are held by and the annual liability is an obligation of Casa. The contributed assets are recorded at fair market value on the date of receipt, and the liability obligation is recorded at the expected value of the annuity liability. The expected value of the annuity liability is the present value of the future annuity payments, discounted at a rate of 3.60% over the life expectancy of the donor or the designated beneficiary, as defined in the Insurance Code of the state of California. These rates are based on the highest federal mid-term rate available over a three month period including the month of the gift. The change in fair value of the annuity liability is reflected in the consolidated statements of operations and changes in net assets. Casa is required to maintain a state mandated reserve to cover its gift annuity liability. For the years ended July 31, 2009 and 2008, the amount of the reserve was $2,146,936 and $2,231,258, respectively, and is included in the accompanying consolidated balance sheets under assets whose use is limited or restricted.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Split-Interest Agreements - Continued

Pooled Income Fund – The Foundation has formed one pooled income fund (the "Fund"). Donors have made irrevocable contributions of assets to the Fund in exchange for a promise by the Foundation to pay the actual income, as defined, earned on the donor's contribution for the remainder of the donor's or the donor's designated income beneficiary's lifetime. Upon the death of the donor or the designated income beneficiary, the value of his/her proportionate interest at the time reverts to the Foundation to be used for such purposes as the donor may have designated, or, if there was no designation, as the Foundation Board of Directors may determine. The assets of the pooled income fund are held and managed by an outside trustee who is responsible for investing the assets and making the quarterly income distributions to the beneficiaries. The contributed assets are recorded at fair market value on the date of receipt, and temporarily restricted contribution revenue is recorded at the present value of the fair value of assets received, discounted at a rate of 4.00% over the life expectancy of the donors or beneficiaries. The change in fair value of the contributed assets is reflected in the consolidated statements of operations and changes in net assets. The assets under the pooled income fund are included in the accompanying consolidated balance sheets under assets whose use is limited or restricted.

Excess of Revenues over Expenses

The accompanying consolidated statements of operations and changes in net assets include excess of revenues over expenses. Changes in unrestricted net assets that are excluded from excess of revenues over expenses include net unrealized gains or losses on other–than-trading investments, the effective portion of the change in fair value of derivative instruments, and net assets released from restrictions used for capital expenditures.

Income Taxes

Casa and Casa Foundation are exempt from federal and California income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and corresponding California provisions, except to the extent of unrelated business taxable income (UBTI) as defined by IRC. The Organization did not incur UBTI for the years ended July 31, 2009 and 2008. Accordingly, no provision for income taxes has been made. Casa and Casa Foundation maintain their tax-exempt status through devoting their resources to meet the primary needs of aged persons, housing, health care, and financial security.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to concentration of credit risk consist principally of cash and cash equivalents, investments, and receivables. The Organization places its cash and cash equivalents and investments with several high-credit quality financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. In addition, the financial institution holding the Organization's cash accounts participate in the FDIC's Transaction Guarantee Program (the "Program"). Under the Program, through July 31, 2010, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Investments are exposed to credit loss for the amount of funds held in the event of nonperformance by the counterparties or in the event of a decline in market value. With respect to the receivables, the Organization's customer base consists of a large number of customers. The Organization performs credit evaluations and writes off uncollectible amounts as they become known.

Fair Value of Financial Instruments

Financial instruments included in the Organization's consolidated balance sheets include cash and cash equivalents, investments, accounts and contributions receivable, payables arising in the ordinary course of business, split-interest agreements, long-term debt and derivative instruments. For cash and cash equivalents, accounts and contributions receivable, payables arising in the ordinary course of business, the carrying amounts represent a reasonable estimate of the fair values due to their short-term maturity. Split-interest agreements consist of numerous arrangements in which a donor establishes and funds a trust administered by a third party other than the Organization. These trusts are recorded at the fair value of the net assets contributed to the trust for which the Organization has a beneficial interest. For long-term debt, the value approximates fair value as the interest rate on the underlying instruments fluctuates with market rates. Investments and derivative instruments are reflected at estimated fair values as described below.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fair Value of Financial Instruments - Continued

Effective August 1, 2008, the Organization adopted SFAS No. 157, *"Fair Value Measurements,"* except as it applies to the nonfinancial assets and nonfinancial liabilities subject to FSP No. 157-2. SFAS No. 157 clarifies the definition of fair value, prescribes methods for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value, and expands disclosures about fair value measurements. The three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies, is:

- Level 1—Valuations based on quoted prices for identical assets and liabilities in active markets.
- Level 2—Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.
- Level 3—Valuations based on unobservable inputs reflecting the Organization's own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

The fair value of investments is determined by third-party service providers utilizing various methods dependent upon the specific type of investment. Investments include marketable equity securities with readily determinable fair values. These investments are reported at fair value as determined by quoted market prices (Level 1). Investments that represent pooled investment funds that are not publicly traded are reported at fair value based on quoted market prices of underlying securities (Level 2). Investments also include investments in limited partnerships and other alternative investments (collectively "Alternative Investments"), which are made in accordance with the Organization's investment policy and are monitored through quarterly performance reviews. The Alternative Investments deal in and with securities of all kinds and descriptions. Publicly traded securities within the alternative investments are generally valued by reference to closing market prices on one or more national securities exchanges or generally accepted pricing services selected by the custodial trustees of the respective alternative investments. Securities not valued by such pricing services are valued based upon bid quotations obtained from independent dealers in securities. In the absence of any independent quotations, securities will be valued by the limited partnership's custodial trustee based on the data obtained from the best available sources (Level 3). Because these investments are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investment existed.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fair Value of Financial Instruments - Continued

Liabilities utilizing Level 2 inputs are derivative instruments. A quoted price can be obtained from a number of dealer counterparties and other independent market sources based on observable interest rates and yield curves for the full term of the asset or liability, thus derivative instruments are classified within Level 2 of the valuation hierarchy

Adoption of SFAS No. 157 did not have a significant impact on the Organization's financial position or results of operations.

Also, in February 2007, the FASB issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities.*" SFAS No. 159 provides an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. The Organization adopted SFAS No. 159 on August 1, 2008 without electing to report certain financial assets or liabilities at fair value that were not previously reported at fair value. Therefore, there was no impact to the Organization's financial position or results of operations.

Derivative Instruments

Casa manages its exposures to interest volatility through use of interest rate swap contracts that meet the accounting requirements for cash flow hedges.

In accordance with the provisions of American Institute of Certified Public Accountants Statement of Position 02-2, "*Accounting for Derivative Instruments and Hedging Activities by Not-for-Profit Health Care Organizations, and Clarification of the Performance Indicator*" (SOP 02-2) the Organization applies the provisions of SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities*", in the same manner as for-profit enterprises. That is, the gain or loss items related to derivative instruments that affect a for-profit enterprise's income from continuing operations under SFAS No. 133 similarly affect the Organization's performance indicator, and the gain or loss items that are excluded from a for-profit enterprise's income from continuing operations similarly are excluded from the performance indicator. The Organization's performance indicator is referred to as excess of revenues over expenses. The ineffective portion of these cash flow hedges in the amount of $174,992 as of July 31, 2009, is recorded in interest expense in the consolidated statements of operations and changes in net assets.

CASA DE LAS CAMPANAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Reclassifications

Certain reclassifications have been made to the 2008 consolidated financial statements to conform with the 2009 financial statement presentation. Such reclassifications have no effect on changes in net assets as previously reported.

New Accounting Pronouncements

In June 2006, the FASB issued interpretation (FIN) No. 48, "*Accounting for Uncertainty in Income Taxes*." The interpretation clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS No. 109, "*Accounting for Income Taxes.*" Specifically, FIN No. 48 prescribes a recognition threshold and a measurement attributable for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on the related derecognition, classification, interest and penalties, accounting for interim periods, disclosure and transition of uncertain tax positions. While the Organization is a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code, income determined to be UBTI would be taxable. On December 30, 2008, FASB issued FSP FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*. This FSP defers the effective date of FIN No. 48 for certain nonpublic enterprises to the annual financial statements for fiscal years beginning after December 15, 2008. The Organization elected to defer implementation for the year ended July 31, 2009. The Organization evaluates uncertain tax positions through its review of the sources of income to identify unrelated business income and certain other matters, including those which may affect its tax exempt status, and at this time does not expect adoption of FIN No. 48 to have a significant impact on its consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165, "*Subsequent Events.*" This statement was issued to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. This statement sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which the entity should recognize events occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. SFAS No. 165 is effective for the Organization for the year ending July 31, 2009. Adoption of SFAS No. 165 did not have a significant impact on the Organization's financial position or results of operations.

NOTE 3 - ASSETS WHOSE USE IS LIMITED OR RESTRICTED

Assets whose use is limited or restricted are available for the following purposes for the years ended July 31;

	2009	2008
Held by Trustee under bond indenture	$ 3,404,688	$ 3,201,688
Held by Casa for refund reserve requirements	-	5,095,960
Subscription and wait list deposits	1,633,275	1,179,902
Restricted by donors	732,949	800,834
Charitable gift annuities	2,146,936	2,231,258
Charitable remainder trusts	35,169	45,560
Pooled income fund	377,381	371,541
	8,330,398	12,926,743
Less: Amounts required for current liabilities	2,103,531	1,864,925
	$ 6,226,867	$ 11,061,818

In order to meet the refund reserve requirement for the year ended July 31, 2009, the California Department of Social Services (CDSS) approved for the reserve requirement to be secured by the escrow agreement and the deed of trust on the Organization's facilities, including real property.

NOTE 4 - INVESTMENTS AND FAIR VALUE DISCLOSURE

The Organization's investments are managed as a diversified portfolio governed by various third party brokers and financial institutions in accordance with the Organization's investment policy.

The composition of investments at fair value at July 31 is as follows:

	2009	2008
Money market funds	$ 386,668	$ 465,628
Domestic – bond mutual funds	6,153,078	9,381,443
International – bond mutual funds	403,848	869,504
Domestic – equity (including mutual funds)	7,740,840	12,330,754
International – equity (including mutual funds)	7,600,668	10,771,393
REIT	600,755	-
Limited Partnerships	703,823	-
Absolute return	4,454,917	5,804,464
U.S. Treasuries	3,404,687	3,201,687
Commodities	1,222,606	4,366,871
Receivables due under charitable remainder trusts	35,169	45,560
	32,707,059	47,237,304
Less: Amounts classified as assets whose use is limited or restricted – current and non-current	8,330,398	12,926,743
	24,376,661	34,310,561
Less: Short-term investments	13,337	91,861
Long-term investments	$ 24,363,324	$ 34,218,700

NOTE 4 - INVESTMENTS AND FAIR VALUE DISCLOSURE - CONTINUED

Net losses from these investments, including assets whose use is limited or restricted amounted to $7,702,299 and $1,685,065 for the years ended July 31, 2009 and 2008, respectively, and is summarized as follows:

	2009		
	Unrestricted	Temporarily Restricted	Total
Investment income	$ 1,220,594	$ 23,676	$ 1,244,270
Realized gains (losses) on sale of investments	47,288	(599)	46,689
Net unrealized (losses) on investments	(8,120,031)	(53,201)	(8,173,232)
Change in value of charitable remainder trusts and pooled income funds	-	24,798	24,798
Change in value of gift annuity contracts	(607,861)	(167,229)	(775,090)
	(7,460,010)	(172,555)	(7,632,565)
Less: Investment expenses	(68,339)	(1,395)	(69,734)
Total	$ (7,528,349)	$ (173,950)	$ (7,702,299)

	2008		
	Unrestricted	Temporarily Restricted	Total
Investment income	$ 3,177,889	$ 49,678	$ 3,227,567
Realized gains (losses) on sale of investments	224,199	(11,190)	213,009
Net unrealized (losses) on investments	(4,632,913)	(62,509)	(4,695,422)
Change in value of charitable remainder trusts and pooled income funds	-	(10,536)	(10,536)
Change in value of gift annuity contracts	(279,193)	(43,672)	(322,865)
	(1,510,018)	(78,229)	(1,588,247)
Less: Investment expenses	(94,882)	(1,936)	(96,818)
Total	$ (1,604,900)	$ (80,165)	$ (1,685,065)

NOTE 4 - INVESTMENTS AND FAIR VALUE DISCLOSURE - CONTINUED

The following table presents the Organization's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of July 31, 2009:

	Quoted prices in active markets for identical assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Cash and cash equivalents	$ 3,063,926	$ -	$ -	$ 3,063,926
Money market funds	386,668	-	-	386,668
Common stock	4,338,550	-	-	4,338,550
Mutual funds	16,741,586	-	-	16,741,586
U.S. Treasuries	3,404,687	-	-	3,404,687
Alternative investments	-	-	7,835,568	7,835,568
Total	$ 27,935,417	$ -	$ 7,835,568	$ 35,770,985
Liabilities:				
Derivative instruments	$ -	$ 3,380,027	$ -	$ 3,380,027
Total	$ -	$ 3,380,027	$ -	$ 3,380,027

For investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during 2009, the reconciliation of beginning and ending balances is as follows:

	Alternative Investments
Fair value at August 1, 2008	$ 9,407,424
Realized and unrealized losses, net	(1,680,186)
Purchases, sales, issuances, and settlements, net	108,330
Fair value at July 31, 2009	$ 7,835,568

NOTE 5 - PROPERTY, BUILDINGS, AND EQUIPMENT

Property, buildings, and equipment at July 31, 2009 and 2008 are as follows:

	2009	2008
Land and land improvements	$ 14,655,738	$ 14,617,884
Buildings and improvements	81,216,476	76,106,713
Property under capital leases	221,069	257,593
Furniture and equipment	14,468,139	13,383,954
Vehicles	718,554	658,493
Art collection	323,796	305,208
	111,603,772	105,329,845
Less: Accumulated depreciation and amortization	(42,671,597)	(38,307,066)
	68,932,175	67,022,779
Construction in progress	129,165	1,900,490
Property, buildings, and equipment, net	$ 69,061,340	$ 68,923,269

Depreciation and amortization expense for the years ended July 31, 2009 and 2008 amounted to $4,521,345 and $4,169,183, respectively.

NOTE 6 - ENDOWMENT

The Organization's endowment consists of 15 individual funds established for a variety of purposes. Net assets associated with endowment funds, including funds designated by the Board of Directors (the "Board") to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board has interpreted the CPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by the CPMIFA.

NOTE 6 - ENDOWMENT - CONTINUED

In accordance with the CPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund,
- The purposes of the Organization and the donor-restricted endowment fund,
- General economic conditions,
- The possible effect of inflation and deflation,
- The expected total return from income and the appreciation of investments,
- Other resources of the Organization, and
- The investment policies of the Organization.

Composition and Changes in Endowment Net Assets

Endowment net assets composition by type of fund is as follows at July 31, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (385,310)	$ 287	$ 1,239,329	$ 854,306
Board-designated endowment fund	1,199,574	-	-	1,199,574
	$ 814,264	$ 287	$ 1,239,329	$ 2,053,880

Changes in endowment net assets for the year ended July 31, 2009 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 1,394,786	$ 219,661	$ 1,232,679	$ 2,847,126
Investment return:				
Investment income, net	40,968	15,525	-	56,493
Net depreciation (realized/unrealized)	(628,845)	(212,128)	-	(840,973)
Total investment return	(587,877)	(196,603)	-	(784,480)
Contributions	65,005	-	4,650	69,655
Transfers	-	(2,000)	2,000	-
Appropriation of endowment assets for expenditure	(57,650)	(20,771)	-	(78,421)
Endowment net assets, end of year	$ 814,264	$ 287	$ 1,239,329	$ 2,053,880

NOTE 6 - ENDOWMENT – CONTINUED

Endowment Funds with Deficiencies

From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Law requires the Organization to retain as a fund of perpetual duration. In accordance with SFAS No. 124, deficiencies of this nature that are reported in unrestricted net assets were $385,310 as of July 31, 2009. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board.

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment funds that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets Endowment assets include those assets of donor-restricted endowment funds that the Organization must hold in perpetuity as well as "quasi" endowment funds established by the Board of Directors.

The Organization has adopted investment and spending policies for endowment funds that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets Endowment assets include those assets of donor-restricted endowment funds that the Organization must hold in perpetuity as well as "quasi" endowment funds established by the Board of Directors. Under this policy, as approved by the Board, the endowment funds are invested in a manner that is expected to:

- Produce a nominal average annual rate of return of 6.8% assuming 2.0% inflation, or an annual compound total rate of return of approximately 4.8% in excess of the rate of inflation, as measured by the National Urban Consumer Price Index (CPI), in the long-term portfolio;
- Perform above average in the comparable fund universe with volatility that is equal to or less than that of such similarly managed funds.

Actual returns in any given year may vary from the expected amounts as past experience is not an indicator of future performance.

NOTE 6 - ENDOWMENT – CONTINUED

Strategies Employed for Achieving Objectives

To satisfy its long-term return objectives, the Organization relies on a total-return strategy in which investment returns and real growth are achieved through both capital appreciation (realized and unrealized) and current income (interest and dividends). As asset allocation is the major determinant of investment performance, the endowment assets are allocated across a number of investment classes to provide diversification and achieve long-term return objectives. As a general policy guideline, the target asset allocations are 60% to growth investments, including both equities and alternative investments, and 40% to fixed income investments. The long-term portfolio will be invested in mutual funds, Fund of Funds (FoF), and/or individually managed accounts that focus on specific style segments within each asset class. The asset allocation plan provides for diversification of assets in an effort to maximize the investment return and manage the risk of the endowment assets consistent with market conditions. Due to the fluctuation of market values, allocations within a specified range constitute compliance with the policy.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Currently, the Organization's intent is to reinvest all dividends, interest and capital gains in the long-term portfolio. At a future date, the Board may elect to establish a spending policy and will do so subject to a spending analysis that will consider the impact of various spending policies on the real value of the portfolio relative to the current allocation.

In establishing this policy, the Organization considered the long-term expected return on its endowment funds. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment funds to grow, at a rate equal to or above the CPI. This is consistent with the Organization's objective to maintain the purchasing power of the endowment funds held in perpetuity as well as to provide additional real growth through new gifts and investment return.

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes or periods at July 31:

	2009	2008
Endowment Funds:		
Purpose restriction:		
Assets restricted for scholarships	$ -	$ 8,474
Assets restricted for transportation activities	-	10,362
Assets restricted for healthcare	-	170,677
Assets restricted for activities	287	7,075
Assets restricted for music activities	-	23,073
Total purpose restriction	287	219,661
Total endowment funds	287	219,661

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS – CONTINUED

	2009	2008
Non-endowment Funds:		
Purpose restriction – non-endowment funds:		
Assets restricted for activities	75	7
Assets restricted for chaplains	2,188	1,532
Assets restricted for charitable remainder trusts	35,169	46,571
Assets restricted for art collections	323,796	305,208
Assets restricted for educational assistance	-	100
Assets restricted for employee disaster and assistance	3,374	-
Assets restricted for employee scholarships	53,964	45,425
Assets restricted for healthcare	-	107
Assets restricted for music activities	24,354	16,916
Assets restricted for pooled income	269,239	234,050
Assets restricted for resident hardships	49	49
Assets restricted for the resident association	-	1,005
Assets restricted for the residential fund	1,500	-
Assets restricted for the Sur library	19,910	22,996
Assets restricted for the Rose and Garden Club	23,753	24,599
Assets restricted for the Sur Rose Garden Gift Annuity	-	2,000
Assets restricted for the Rosenmeier Health Fund	194,670	231,624
Assets restricted for the transportation fund	5,159	2,797
Total purpose restricted	957,200	934,986
Total non-endowment funds	957,200	934,986
	$ 957,487	$ 1,154,647

Temporarily restricted net assets were released from restrictions by incurring expenses satisfying the donor-restricted purposes or time requirements during the years ended July 31, 2009 and 2008 as follows:

	2009	2008
Transportation	$ 1,892	$ 2,897
Resident Hardships	-	31,689
Healthcare	9,278	9,786
Employee scholarships	44,237	87,588
General purpose	6,118	31,492
Capital expenditures	56,121	36,935
	$ 117,646	$ 200,387

CASA DE LAS CAMPANAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consisted of the following at July 31:

	2009	2008
Hunt Scholarship Endowment Fund (Income is temporarily restricted for scholarships)	$ 20,041	$ 20,041
Burk Scholarship Endowment Fund (Income is temporarily restricted for scholarships)	9,500	9,500
Yu Scholarship Endowment Fund (Income is temporarily restricted for scholarships)	19,505	19,505
Gift Annuity Scholarship Endowment Fund (Income is temporarily restricted for scholarships)	17,000	15,000
Carpenter Activities (Income is temporarily restricted for activities)	26,209	26,209
Transportation Activities (Income is temporarily restricted for transportation activities)	10,000	10,000
Gilkeson Scholarship Endowment Fund (Income is temporarily restricted for scholarships)	18,553	18,553
Hegewald Health Endowment Fund (Income is temporarily restricted for healthcare)	93,000	93,000
T & G Music Endowment Fund (Income is temporarily restricted for music)	187,209	187,209
Nauman Scholarship Endowment Fund (Income is temporarily restricted for scholarships)	29,650	25,000
Wynhoff Endowment Fund (Income is temporarily restricted for healthcare)	808,662	808,662
	$ 1,239,329	$ 1,232,679

NOTE 9 - RESIDENCE AGREEMENTS

For the right to occupy a living unit for life and to receive certain services, residents are required to pay an entrance fee. Upon execution of a deposit agreement, 20% of the entrance fee is payable with the remaining 80% due on or before occupancy by the residents.

Residents may cancel their Residence Agreement at any time up to 90 days after establishing residency at Casa and will be refunded the full amount of the entrance fee paid, less an application fee of $1,000.

NOTE 9 - RESIDENCE AGREEMENTS - CONTIUNED

After the 90-day period has expired, residents are entitled to receive various amounts of refunds based upon one of five agreements covering Casa, as follows:

- Standard resident agreement (411 agreements) - If cancellation occurs in the first seven and one-half years of residency, the resident shall be refunded the entrance fee, less 10% of the amount paid and 1% for each month or partial month that they were a resident. After seven and one-half years of residency, no refund is made. If the resident expires after the 90-day cancellation period, no refund is made and the unamortized entrance fee is recognized into income.

- Refundable 50 Plan (1 agreement) – Resident (or their estate) is entitled to a refund of 50% of the entrance fee paid. This plan is no longer offered.

- Refundable 75 Plan (5 agreements) – Residents (or their estates) are entitled to a refund of 75% of the entrance fee paid.

- Refundable 80 Plan (2 agreements) – Residents (or their estates) are entitled to a refund of 80% of the entrance fee paid. This plan is no longer offered.

Included in deferred revenue from entrance fees as of July 31, 2009 and 2008 are approximately $25,972,000 and $29,625,000, respectively, of amounts contractually refundable under these agreements.

In addition to the entrance fees, all residents are charged monthly service fees. In addition to receiving various services such as food, utilities, cleaning, scheduled transportation services, and other services offered by Casa, residents are entitled to various levels of care, including assisted living and nursing care. Service fees are established at the inception of occupancy and may be increased by Casa according to "economic necessity," which is related to the percentage change in the prior year per capita cost of operating expenses of Casa for furnishing services to the residents.

NOTE 10 - LONG-TERM DEBT

On May 1, 2007, Casa issued $28,700,000 Variable Rate Revenue Refunding Bonds (the "Series 2007A" Tax Exempt Bonds), and $16,945,000 Taxable Variable Rate Revenue Refunding Bonds (the "Series 2007B" Taxable Bonds, and together with Series 2007A Bonds, the "Series 2007 Bonds"). The Series 2007 Bonds have an original maturity of September 1, 2037, but can be redeemed prior to maturity. Interest on the Series 2007 Bonds is calculated and payable on each Interest Payment Date for the Series 2007 Bonds in an amount equal to all interest which has accrued during the period from the last such Interest Payment Date to such current Interest Payment Date. In no event are any Series 2007 Bonds to bear an interest at a rate per annum in excess of the Maximum Rate (lesser of 12% per annum).

NOTE 10 - LONG-TERM DEBT - CONTINUED

The proceeds of the Series 2007 Bonds were used, together with other available funds to (i) advance refund the entire outstanding principal amount of the California Health Facilities Financing Authority 1998 Series A Insured Bonds, (ii) reimburse the Organization for certain capital expenditures, (iii) fund the debt service reserve fund, and (iv) pay certain expenses incurred in connection with the issuance of the Series 2007 Bonds, including the costs of obtaining the Series 2007 Bonds.

The Series 2007 Bonds are secured by Casa's gross revenues and further secured by first deed of trust on the Casa facilities, including real property. A bond insurance policy was purchased relating to the Series 2007 Bonds, in which Fitch Ratings Service had given an "A-" rating.

During the year ended July 31, 2008, the organization cancelled the Standby Bond Purchase Agreement (SBPA) related to the Series 2007 Bonds with its Liquidity Facility Provider, and had to pay a cancellation fee. In February 2008, the Organization had a one-year Direct Pay Letter of Credit ("2008 LOC") agreement with JP Morgan for the Series 2007 A & B Bonds, which expired on February 6, 2009.

Bonds are subject to redemption prior to their Maturity Date, by the California Health Facilities Financing Authority at the direction of the Corporation, in whole or in part on any Business Day, at a Redemption Price equal to 100% of the principal amount of Bonds called for redemption, without premium, together with accrued interest, if any, from the end of the preceding Interest Period to the Redemption Date.

In September 2008, as a result of the economic turmoil, Radian Asset Assurance, Inc.' ("Radian"), the bond insurer, reduced its credit rating down to BBB+, which is below the required swap agreement rating of A-. JP Morgan did not re-issue the Direct Pay Letter of Credit agreement for the bond conversion, which resulted in Radian not issuing their swap insurance policy on the 2007B Bonds. Consequently, the 2007B taxable bonds were not converted to the 2008B tax exempt bonds, and the 2007B bonds were converted to bank bonds ("2007B Bank Bonds"), due and payable over the next five years. The failure to issue the 2008B bonds resulted in an additional termination event with Morgan Stanley, swap counterparty. However, the Organization was able to obtain a new LOC agreement with JP Morgan for the Series 2007A Bonds, expiring July 2010.

The amortization commencement date for the 2007B Bank Bonds was July 1, 2009. The Organization requested to postpone the first scheduled quarterly principal payment and entered into a forbearance agreement with JP Morgan with respect to the 2007B Bank Bonds on June 30, 2009. JP Morgan agreed to waive a certain identified potential event of default under the 2008 LOC related to the 2007B Bank Bonds, and forbear from exercising certain related rights and remedies with respect to such identified defaults until August 1, 2009.

NOTE 10 - LONG-TERM DEBT - CONTINUED

A debt reserve fund was established from the bond proceeds with US Bank, a trustee, for the Series 2007 Bonds for the years ended July 31, 2009 and 2008 in the amount of $2,667,692 and $2,670,943, respectively, and is included in assets whose use is limited or restricted.

Long-term debt is comprised of the following at July 31:

	2009	2008
Series 2007A Bonds Variable Rate Revenue Refunding Bonds, are comprised of term bonds, bearing a variable interest rate with interest payments due monthly, principal payments due on an annual basis (commencing September 1, 2009), and maturing September 1, 2037.	$ 28,700,000	$ 28,700,000
Series 2007B Bonds Taxable Variable Rate Revenue Refunding Bonds, were comprised of term bonds and converted to bank bonds in May 2009, bearing a variable interest rate at the higher of .50% above the Federal Funds Rate or the Prime Rate, with interest payments due monthly, principal payments due on a quarterly basis (commencing August 1, 2009), and maturing May 1, 2014.	16,945,000	16,945,000
	45,645,000	45,645,000
Less: Current portion	3,934,000	-
	$ 41,711,000	$ 45,645,000

Schedule of principal repayments on long-term debt are as follows for fiscal years ending July 31:

2010	$ 3,934,000
2011	3,955,000
2012	3,980,000
2013	4,000,000
2014	4,025,000
2015 to 2019	3,575,000
2020 to 2037	22,176,000
	$ 45,645,000

NOTE 10 - LONG-TERM DEBT - CONTINUED

Casa is subject to financial covenants on its long-term debt which include a debt service coverage ratio. Casa was in compliance with all its covenants as of and for the years ended July 31, 2009 and 2008, respectively.

NOTE 11 - DERIVATIVE INSTRUMENTS

The Organization uses certain derivative financial instruments to manage the risk associated with the changes in interest rates on its debt obligations. The Organization does not enter into derivative transactions for speculative purposes and therefore holds no derivative instruments for trading purposes. The derivative financial instruments are used to achieve the Organization's targeted mix of fixed and floating interest rates on outstanding debt. The derivative instruments are accounted for as a hedge of the related liabilities, and the hedge effectiveness is measured by assessing the changes in the fair value of the hedged items.

In May 2007, Casa issued the Series 2007 Bonds, as variable rate demand bonds, to advance refund the Series 1998 Bonds and reimburse Casa for previous project expenses (see Note 10). These debt obligations expose Casa to variability in interest payments due to changes in interest rates. If interest rates increase, interest expense increases. Conversely, if interest rates decrease, interest expense decreases. In conjunction with the issuance of the Series 2007 Bonds, Casa entered into four interest rate swaps (collectively, the "Swap Agreements") to minimize the financial market risks resulting primarily from changes in interest rates and to limit the variability of interest payments. For each sub-series of bonds, Casa entered into one Swap Agreement for the escrow period and a second interest rate swap covering the period of time thereafter.

In general, the Swap Agreements provide that Casa will pay a fixed rate and receive a floating rate determined by the Swap Agreements. The Swap Agreement is a contract to exchange floating interest rates over the life of the Swap Agreement which follows the amortization schedule of the Series 2007 Bonds (See Note 10). Two of the Swap Agreements were effective May 2, 2007 and matured on August 1, 2008. The other two Swap Agreements were effective August 1, 2008 and due to mature on September 1, 2036.

One of the Swap Agreements was with KBC Bank, and three Swap Agreements were with Morgan Stanley Capital Services, Inc. The Swap Agreement with KBC Bank was short-term with a notional amount of $16,945,000 ("the Series 2007B Bonds"), bore a fixed interest rate of 5.134%, with a variable rate consisting of 100% of LIBOR and matured on August 1, 2008. The Swap Agreements with Morgan Stanley Capital Services, Inc. consisted of one short-term Swap Agreement and two long-term Swap Agreements. The short-term Swap Agreement had a notional amount of $28,700,000 ("the Series 2007A Bonds"), bore a fixed interest rate of 3.794%, with the variable rate consisting of the SIFMA Index (formerly BMA rate - calculated on a weekly basis) and

NOTE 11 - DERIVATIVE INSTRUMENTS – CONTINUED

matured on August 1, 2008. The first long-term Swap Agreement has a notional amount of $28,700,000 ("the Series 2007A Bonds"), bore a fixed interest rate of 3.596%, with the variable rate consisting of 67% of LIBOR, and is scheduled to mature on September 1, 2036. With the issuance of the LOC from JP Morgan in July 2009 for the 2007A Bonds, the Swap Agreement was amended to bear an interest rate of 3.896% until July 28, 2010, at which time the interest rate would revert to 3.596%. The second long-term Swap Agreement had a notional amount of $16,945,000 ("the Series 2007B Bonds"), bore a fixed interest rate of 3.596%, with the variable rate consisting of 67% of LIBOR, and was due to mature on September 1, 2036.

In July 2009, the Organization terminated the interest rate swap agreement related to the Series 2007B Bonds (Note 10), with a notional amount of $16,945,000 that was originally set to mature in September 2036. The termination resulted in the assessment of the termination fee of $1,793,000, which represented the fair market value of the swap agreement on the day of termination.

The following schedule outlines the terms and fair market values of the derivative instruments on July 31, 2009 and 2008:

	Series 2007A Interest Rate Swap - LT	Series 2007B Interest Rate Swap - LT	Series 2007A Interest Rate Swap - ST	Series 2007B Interest Rate Swap -ST	Total
Notional amount	$ 28,700,000	$ 16,945,000	$ 28,700,000	$ 16,945,000	
Trade date	04/20/07	04/20/07	04/20/07	04/20/07	
Effective date	08/01/08	08/01/08	05/02/07	05/02/07	
Termination or cancellation date	09/01/36	07/28/09	08/01/08	08/01/08	
Fixed rate	3.896%	3.596%	3.794%	5.134%	
Fair value at July 31, 2007	369,572	218,310	(8,298)	(1,268)	578,316
Change in fair value – effective portion	(1,701,898)	(1,005,020)	8,298	2,414	(2,696,206)
Fair value at July 31, 2008	(1,332,326)	(786,710)	-	1,146	(2,117,890)
Change in fair value – effective portion	(1,873,855)	-	-	-	(1,873,855)
Change in fair value – ineffective portion	(173,846)	-	-	(1,146)	(174,992)
Change in fair value – terminated swap agreement	-	(1,006,290)	-	-	(1,006,290)
Termination fee	-	1,793,000	-	-	1,793,000
Fair value at July 31, 2009	$ (3,380,027)	$ -	$ -	$ -	$ (3,380,027)

The Organization has included the fair market value of these derivative instruments as a liability of $3,380,027 and $2,117,890 in the accompanying consolidated balance sheets as of July 31, 2009 and 2008, respectively.

NOTE 11 - DERIVATIVE INSTRUMENTS – CONTINUED

The notional amount does not represent the amount of potential exposure to credit loss. The exposure to loss is limited to the receivable or payable amount, if any, which may be generated as a result of the Swap Agreements. The net cash paid or received under the Swap Agreements are recognized as an adjustment to interest expense. For the years ended July 31, 2009 and 2008, total cash paid under the Swap Agreements amounted to $1,227,328 and $463,710, respectively.

NOTE 12 - OBLIGATIONS UNDER CAPITAL LEASES

Casa leases equipment under capital leases, with most leases containing a purchase option at prices representing the fair value of the equipment at expiration of the lease term. Property under capital leases is amortized over the lease terms of 3 to 5 years. Amortization expense of capital leases in 2009 and 2008 included in depreciation and amortization expense totaled $42,273 and $51,510, respectively (see Note 5).

Future minimum lease payments as of July 31, 2009 are as follows:

2010	$ 48,811
2011	48,811
2012	32,117
2013	13,421
2014	1,118
Total minimum lease payments	144,278
Less: Amount representing interest at 0.53% to 12.84%	16,704
Present value of net minimum capital lease payments	127,574
Less: Current portion	40,445
	$ 87,129

NOTE 13 - BENEFIT PLAN

Casa sponsors a 403(b) defined contribution plan (the "Plan") covering all eligible employees. Employees must be 21 years of age and work at least 20 hours per week to be eligible to participate in the Plan. Eligible employees may defer their compensation as employee contribution, subject to current IRC limits. Casa currently makes matching contributions to the Plan in the amount equal to 50% of the employee contribution, not to exceed 6% of the eligible compensation. Casa contributions to the Plan for 2009 and 2008 amounted to $95,640 and $109,915, respectively.

NOTE 14 - MANAGEMENT AGREEMENT

In 2006, Casa entered into a management agreement with Life Care Services LLC, which was set to expire on July 31, 2009. The agreement was renewed effective August 1, 2009 for a five-year period ending July 31, 2014. Management fee expense related to this agreement, included in general and administrative expenses, was approximately $987,000 and $1,035,000, inclusive of salary and benefits, for the years ended July 31, 2009 and 2008, respectively. Amounts due and payable to Life Care Services, LLC, amounted to approximately $60,000 and $91,000 at July 31, 2009 and 2008, respectively. Management fee expense may vary year to year as certain amounts are based upon an incentive performance computation.

NOTE 15 - LITIGATION

Casa is involved in litigation arising in the normal course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on Casa's future financial position or changes in net assets.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

Construction

Casa has several projects under construction and pre-development. Total pre-development and construction costs as of July 31, 2009 and 2008 amounted to $129,165 and $1,900,490, respectively. Casa's estimated costs to complete construction of these projects will be approximately $875,000 through June 2012.

NOTE 17 - INSURANCE COVERAGE

Professional Liability

Casa is insured for professional and general liability claims under an occurrence-based policy for $1,000,000 per occurrence and $3,000,000 aggregate and $25,000,000 program aggregate. Losses in excess of the limits are covered by an umbrella liability policy up to $10,000,000 per occurrence and $50,000,000 aggregate. Deductibles under the policy range from $250 to $25,000.

Self-Insured

Casa is self-insured for workers compensation claims beginning in the year ended July 31, 2004 up to a maximum of $250,000 per occurrence. Self-insured losses are accrued based upon Casa's estimates of the aggregate liability for uninsured claims incurred using Casa's historical experience. The excess of premiums paid for actual claims experience resulted in a worker's compensation receivable of approximately $1,358,000 at July 31, 2009 and 2008, and is included in other receivables and other assets in the accompanying consolidated balance sheets.

NOTE 18 - RISKS AND UNCERTAINTIES

The Organization's results of operations are materially affected by the adverse conditions in the financial markets and the economy in general. As shown in the accompanying consolidated financial statements, the Organization has incurred a decrease in net assets of $10,068,308 and $4,395,478 for the years ended July 31, 2009 and 2008, respectively, and has a working capital deficit of $2,199,585 at July 31, 2009.

Also, the Organization's substantial indebtedness could have important consequences, including:

- Increase the vulnerability to adverse economic and industry conditions;
- Require the Organization to dedicate a substantial portion of their cash flow from operations to payments on indebtedness, thereby, reducing the availability of cash flow to fund working capital, capital expenditures and other general purposes;
- Increase the cost or limit the availability of additional financing, to fund future working capital, capital expenditures and other general purposes.

To improve working capital and ensure the Organization's ability to continue as a going concern, management has implemented cost saving strategies and increased its marketing efforts for the purpose of achieving full occupancy. Also, the Organization is currently working with third party financial institutions to renegotiate the terms of the Series 2007 bonds, including; (1) re-issuing the series 2007 bonds with Casa's credit rating; (2) refinancing the 2007 bonds as state insured bonds with Cal-Mortgage, a division of the Office of Statewide Health Planning and Development (OSHPD); or (3) obtaining a Direct pay Letter of Credit on a long-term basis. As of the date of the independent auditors' report, the Organization obtained a conditional commitment from Cal-Mortgage Loan Insurance Division of OSHPD to insure a loan to the Organization in the amount not to exceed $54,340,000. The purpose of the insured loan is to refinance existing variable rate debt, fund interest rate swap termination payment, fund general improvements, and fund cost of issuance. However, there can be no assurance that the efforts on obtaining new financing will be successful, and/or that cash generated by operations will be adequate to meet the Organization's needs.

CASA DE LAS CAMPANAS

CONSOLIDATED SUPPLEMENTARY INFORMATION

JULY 31, 2009 AND 2008

KELLOGG & ANDELSON
ACCOUNTANCY CORPORATION

To the Members of the
Audit Committee of
Casa de las Campanas
Rancho Bernardo, California

Independent Auditors' Report on Consolidated Supplementary Information

Our report on our audit of the basic consolidated financial statements of Casa de las Campanas and Casa Foundation for 2009 appears on page 1. The audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidated supplementary information on pages 37 through 39 is presented for the purpose of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and, accordingly, we express no opinion on it.

Kellogg + Andelson

November 20, 2009

21700 Oxnard Street, Suite 900
Woodland Hills, California 91367

12400 Wilshire Boulevard, Suite 1100
Los Angeles, California 90025

Phone (818) 971-5100 Fax (818) 971-5155 www.k-a.com

CASA DE LAS CAMPANAS
CONSOLIDATED SUPPLEMENTARY INFORMATION
CONSOLIDATING BALANCE SHEETS
JULY 31, 2009
SEE INDEPENDENT AUDITORS' REPORT ON CONSOLIDATED SUPPLEMENTARY INFORMATION

ASSETS

	Casa de Las Campanas	Casa Foundation	Eliminations	Consolidated
CURRENT ASSETS:				
Cash and cash equivalents	$ 3,063,818	$ 108	$ -	$ 3,063,926
Assets whose use is limited or restricted, required for current liabilities	1,936,972	166,559	-	2,103,531
Short-term investments	-	13,337	-	13,337
Accounts receivable, net	797,757	-	-	797,757
Prepaid expenses and other current assets	1,044,835	-	-	1,044,835
Contributions receivable	-	23,750	-	23,750
Other receivables	507,517	-	-	507,517
Total current assets	7,350,899	203,754	-	7,554,653
INTERCOMPANY RECEIVABLES	2,685,010	739,992	(3,425,002)	-
ASSETS WHOSE USE IS LIMITED OR RESTRICTED, less amounts classified as current	5,247,927	978,940	-	6,226,867
LONG-TERM INVESTMENTS	23,073,627	1,289,697	-	24,363,324
PROPERTY, BUILDINGS, AND EQUIPMENT, net	68,737,544	323,796	-	69,061,340
DEFERRED FINANCING FEES, net	1,939,994	-	-	1,939,994
OTHER ASSETS	1,288,185	-	-	1,288,185
Total assets	$ 110,323,186	$ 3,536,179	$ (3,425,002)	$ 110,434,363

LIABILITIES AND NET ASSETS

	Casa de Las Campanas	Casa Foundation	Eliminations	Consolidated
CURRENT LIABILITIES:				
Accounts payable and accrued expenses	$ 4,190,202	$ 3,035	$ -	$ 4,193,237
Interest payable	90,459	-	-	90,459
Deposits from residents	409,869	-	-	409,869
Current portion of obligations under capital leases	40,445	-	-	40,445
Current portion of obligations under gift annuity contracts	383,679	-	-	383,679
Current portion of estimated refundable entrance fees	702,549	-	-	702,549
Current portion of long-term debt	3,934,000	-	-	3,934,000
Total current liabilities	9,751,203	3,035	-	9,754,238
OBLIGATIONS UNDER CAPITAL LEASES, net of current portion	87,129	-	-	87,129
OBLIGATIONS UNDER GIFT ANNUITYCONTRACTS, net of current portion	1,763,257	-	-	1,763,257
ESTIMATED REFUNDABLE ENTRANCE FEES, net of current portion	4,150,441	-	-	4,150,441
DEFERRED REVENUE, Pooled Income Funds	-	108,142	-	108,142
LONG-TERM DEBT, net of current portion	41,711,000	-	-	41,711,000
DEFERRED REVENUE FROM ENTRANCE FEES	40,196,354	-	-	40,196,354
DERIVATIVE INSTRUMENTS	3,380,027	-	-	3,380,027
Total liabilities	101,039,411	111,177	-	101,150,588
NET ASSETS:				
Unrestricted	7,086,959	1,228,186	(1,228,186)	7,086,959
Temporarily restricted	957,487	957,487	(957,487)	957,487
Permanently restricted	1,239,329	1,239,329	(1,239,329)	1,239,329
Total net assets	9,283,775	3,425,002	(3,425,002)	9,283,775
Total liabilities and net assets	$ 110,323,186	$ 3,536,179	$ (3,425,002)	$ 110,434,363

See independent auditors' report on consolidated supplementary information

CASA DE LAS CAMPANAS
CONSOLIDATED SUPPLEMENTARY INFORMATION
CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JULY 31, 2009
SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

CHANGES IN UNRESTRICTED NET ASSETS:	Casa de Las Campanas	Casa Foundation	Eliminations	Consolidated
REVENUES, GAINS AND OTHER SUPPORT:				
Resident fees earned, including amortization of deferred revenues from non-refundable entrance fees of $6,451,070	$ 30,147,103	$ -	$ -	$ 30,147,103
Investment income, net	1,103,599	48,656	-	1,152,255
Net realized gains (losses) on sale of investments	60,746	(13,458)	-	47,288
Net assets released from restrictions, used for operations	-	63,525	-	63,525
Contributions	(765,573)	135,933	765,573	135,933
Total revenues, gains and other support	30,545,875	234,656	765,573	31,546,104
OPERATING EXPENSES:				
Resident services	835,847	-	-	835,847
Health center	4,989,175	-	-	4,989,175
Assisted living	2,148,295	-	-	2,148,295
Home health	540,015	-	-	540,015
Plant and maintenance	3,453,946	-	-	3,453,946
Housekeeping and laundry	1,638,422	-	-	1,638,422
Food and beverage	5,279,944	-	-	5,279,944
Donation expense	-	138,796	(96,007)	42,789
General and administrative	3,411,224	119,449	-	3,530,673
Depreciation and amortization	4,791,853	108	-	4,791,961
Interest expense	2,629,446	-	-	2,629,446
Total operating expenses	29,718,167	258,353	(96,007)	29,880,513
Income (loss) from operations	827,708	(23,697)	861,580	1,665,591
NONOPERATING REVENUES (EXPENSES)				
Change in value of gift annuity contracts	-	(607,861)	-	(607,861)
Change in fair value of derivative instruments - early termination of swap agreement	(1,006,290)	-	-	(1,006,290)
Other income (expenses)	8,527	-	-	8,527
Total nonoperatig revenues (expenses)	(997,763)	(607,861)	-	(1,605,624)
Excess of revenues over expenses	$ (170,055)	$ (631,558)	$ 861,580	$ 59,967

CASA DE LAS CAMPANAS
CONSOLIDATED SUPPLEMENTARY INFORMATION
CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS - CONTINUED
FOR THE YEAR ENDED JULY 31, 2009
SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

	Casa de Las Campanas	Casa Foundation	Eliminations	Consolidated
CHANGES IN UNRESTRICTED NET ASSETS:				
Excess of revenues over expenses	$ (170,055)	$ (631,558)	$ 861,580	$ 59,967
Net unrealized (losses) on investments	(7,833,888)	(286,143)	-	(8,120,031)
Change in fair value of derivative instruments	(1,873,855)	-	-	(1,873,855)
Net assets released from restrictions, used for capital expenditures	-	56,121	-	56,121
(Decrease) in unrestricted net assets	(9,877,798)	(861,580)	861,580	(9,877,798)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:				
Contributions	96,436	96,436	(96,436)	96,436
Investment income, net	22,281	22,281	(22,281)	22,281
Realized (losses) on sale of investments	(599)	(599)	599	(599)
Net unrealized (losses) on investments	(53,201)	(53,201)	53,201	(53,201)
Net assets released from restrictions, used for operations	(61,525)	(61,525)	61,525	(61,525)
Net assets released from restrictions, used for capital expenditures	(56,121)	(56,121)	56,121	(56,121)
Net assets transferred from temporarily restricted to permanently restricted	(2,000)	(2,000)	2,000	(2,000)
Change in value of gift annuity contracts	(167,229)	(167,229)	167,229	(167,229)
Change in value of charitable remainder trusts and pooled income funds	24,798	24,798	(24,798)	24,798
(Decrease) in temporarily restricted net assets	(197,160)	(197,160)	197,160	(197,160)
CHANGES PERMANENTLY RESTRICTED NET ASSETS:				
Contributions	4,650	4,650	(4,650)	4,650
Net assets transferred from temporarily restricted to permanently restricted	2,000	2,000	(2,000)	2,000
Increase in permanently restricted net assets	6,650	6,650	(6,650)	6,650
(Decrease) in net assets	(10,068,308)	(1,052,090)	1,052,090	(10,068,308)
NET ASSETS BEGINNING OF YEAR	19,352,083	4,477,092	(4,477,092)	19,352,083
NET ASSETS END OF YEAR	$ 9,283,775	$ 3,425,002	$ (3,425,002)	$ 9,283,775

See independent auditors' report on consolidated supplementary information

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APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

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APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a summary of certain provisions of the Indenture, the Loan Agreement, the Contract of Insurance, the Regulatory Agreement and the Deed of Trust, which are not described elsewhere in this Official Statement. These summaries do not purport to be comprehensive and reference should be made to the Indenture, the Loan Agreement, the Contract of Insurance, the Regulatory Agreement and the Deed of Trust for a full and complete statement of their provisions. All capitalized terms not defined in this Official Statement have the meaning set forth in the Indenture or in the Regulatory Agreement.

DEFINITIONS OF CERTAIN TERMS

"*Accountant*" means any Independent certified public accountant or firm of such accountants with a national or regional reputation selected by the Borrower and acceptable to the Office, and so long as such Accountant is acceptable to the Office. The initial Accountant, Kellogg & Andelson, is acceptable to the Office.

"*Act*" means Chapter 5 of Division 7 (commencing with Section 6500) of the Government Code of the State of California.

"*Additional Payments*" means payments so designated and required to be made by the Borrower pursuant to the Loan Agreement.

"*Adjusted Annual Operating Revenues*" means operating revenue and investment income of the Borrower, less contractual allowances, allowance for bad debts and free services for any Fiscal Year, all as determined in accordance with generally accepted accounting principles.

"*Affiliate*" means a Person which, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with the Borrower.

"*Aggregate Debt Service*" means, as of any date of calculation and with respect to any Fiscal Year, the sum of all Debt Service falling due in such Fiscal Year on all Long-Term Indebtedness of the Borrower.

"*ALTA*" means American Land Title Association.

"*Authority*" means ABAG Finance Authority for Nonprofit Corporations, a joint powers authority duly organized and validly existing under the laws of the State of California.

"*Authority Annual Fee*" means $10,000, payable annually in advance on February 1 of each year, commencing February 1, 2011.

"*Authority Issuance Fee*" means $25,000.

"*Authorized Representative*" means, (a) with respect to the Borrower, the Chief Executive Officer, the Chief Financial Officer, or any other person designated as an Authorized Representative of the Borrower by a Certificate of the Chief Executive Officer or the Chief Financial Officer filed with the Trustee, (b) with respect to the Office, the Director of the Office or the Deputy Director of the Cal Mortgage Loan Insurance Division or any other person designated as an Authorized Representative of the Office by a Statement of the Office signed by its Director or the Deputy Director of the Cal Mortgage Loan Insurance Division and filed with the Trustee, and (c) with respect to the Authority, its President, Chief Financial Officer or Secretary.

"*Board*" means the Board of Directors of the Borrower.

"*Bond Counsel*" means Independent counsel of recognized national standing in the field of obligations the interest on which is excluded from gross income for federal income tax purposes, selected by the Borrower and acceptable to the Authority and the Office.

"*Bond Reserve Account Requirement*" means the least of (i) Maximum Annual Bond Service, (ii) an amount equal to 125% of the average annual debt service with respect to the Bonds (determined as of the date of issuance of the Bonds), or (iii) an amount equal to ten percent (10%) of the aggregate stated original principal amount of the Bonds (except that, in determining the aggregate stated original principal amount of the Bonds, the issue price of the Bonds (net of pre-issuance accrued interest) shall be substituted for the original principal amount if the Bonds are sold at either an original issue discount or premium exceeding two percent (2%) of their stated redemption price at maturity).

"*Bonds*" means the $54,310,000 ABAG Finance Authority for Nonprofit Corporations Insured Revenue Bonds (Casa de las Campanas, Inc.), Series 2010.

"*Bond Year*" means the period of twelve consecutive months ending July 31 (unless the Borrower selects an alternate date) in any year in which Bonds are Outstanding.

"*Borrower*" means Casa de las Campanas, Inc., a California nonprofit public benefit corporation, and its successors and assigns and any surviving, resulting or transferee corporation.

"*Business Day*" means any day other than a Saturday, Sunday, or a day on which banking institutions in the city in which the Principal Corporate Trust Office of the Trustee is located are authorized or obligated by law or executive order to be closed or a day on which the Federal Reserve System is closed.

"*Capital Replacement Amount*" means the amount required to be deposited in each Fiscal Year to the Capital Replacement Fund, which amount shall be (a) $250,000 for the Fiscal Year commencing in 2010 and (b) thereafter shall be increased for the next Fiscal Year to the extent there was a percentage increase from the preceding July 1 in the Consumer Price Index, All Urban Consumers, All Items San Diego, CA, published by the United States Department of Labor, Bureau of Labor Statistics, such percentage increase, if any, shall be applied to the Capital Replacement Amount of the preceding Fiscal Year and the Capital Replacement Amount shall then be determined by adding the resulting amount to the Capital Replacement Amount of such previous Fiscal Year, provided, that in no event shall the Capital Replacement Amount increase by more than ten percent (10%) in one year. Such amount shall be calculated by the Borrower in each year and certified to the Office.

"*Capital Replacement Fund*" means the fund by that name established pursuant to the Regulatory Agreement.

"*CERCLA*" means the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (42 U.S.C. § 9601 et seq.), as heretofore or hereafter amended from time to time.

"*Certificate,*" "*Statement,*" "*Request,*" "*Requisition*" and "*Order*" of the Authority, the Office, or the Borrower means, respectively, a written certificate, statement, request, requisition or order signed in the name of the Authority by an Authorized Representative, or in the name of the Borrower or the Office by an Authorized Representative of the Borrower or the Office, respectively, and delivered to the Trustee. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by the Indenture, each such instrument shall include the statements provided for in the Indenture.

"*Closing Date*" means January 28, 2010, the date upon which there is a physical delivery of the Bonds in exchange for the amount representing the purchase of the Bonds by the Original Purchaser.

"*Code*" means the Internal Revenue Code of 1986, as amended, or any corresponding provision of any future laws of the United States of America relating to federal income taxation, and except as otherwise provided herein or required by the context hereof, includes interpretations thereof contained or set forth in the applicable regulations of the Department of the Treasury (including applicable final regulations or temporary regulations), the applicable rulings of the Internal Revenue Service (including published Revenue Rulings and private letter rulings) and applicable court decisions..

"*Continuing Disclosure Agreement*" means that certain Continuing Disclosure Agreement of the Borrower, dated the date of issuance and delivery of the Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

"*Contract of Insurance*" means that contract of insurance entered into by and among the Borrower, the Office and the Authority dated as of the same date as the Regulatory Agreement, as amended, modified and supplemented from time to time.

"*Costs of Issuance*" or *"Issuance Costs"* means all costs and expenses of issuance of the Bonds, including, but not limited to: (i) underwriters' discount and fees; (ii) counsel fees, including, without limitation, Bond Counsel, and special tax counsel fees, as well as counsel fees for the Authority or the Borrower; (iii) fees and expenses of the Authority; (iv) financial advisor fees; (v) rating agency fees; (vi) trustee fees and trustee counsel fees; (vii) paying agent and certifying and authenticating agent fees related to issuance of the Bonds; (viii) accounting fees and expenses; (ix) printing costs of the Bonds and of the preliminary and final official statement; (x) publication costs associated with the financing proceedings; (xi) costs of any credit enhancement of the Bonds; and (xii) any other fees or costs deemed issuance costs for purposes of the Act and by Section 1.150-1(b) of the Income Tax Regulations.

"*Costs of Issuance Fund*" means the fund by that name established pursuant to the Indenture.

"*Debt Service,*" when used with respect to any Long-Term Indebtedness, means, as of any date of calculation and with respect to any period, the sum of

a. the interest falling due on such Long-Term Indebtedness during such period (except to the extent that such interest is payable from the proceeds of such Long-Term Indebtedness set aside for such purpose), and

b. the scheduled principal (or mandatory sinking fund or installment purchase price or lease rental or similar) payments or deposits required with respect to such Long-Term Indebtedness during such period (except to the extent such principal is payable from the proceeds of such Long-Term Indebtedness set aside for such purpose), computed on the assumption that no portion of such Long-Term Indebtedness shall cease to be outstanding during such period except by reason of the application of such scheduled payments, provided, however, that for purposes of such computation:

(1) if Long-Term Indebtedness is

(a) secured by an irrevocable letter of credit or irrevocable line of credit issued by a financial institution having a combined capital and surplus of at least fifty million dollars ($50,000,000) and whose unsecured securities are rated in one of the two highest short-term or long-term Rating Categories (without regard to numerical modifier) by each rating agency then rating the Bonds, or

(b) insured by an insurance policy or surety bond issued by an insurance company rated at least A+ by Alfred M. Best Company in Best's Insurance Reports,

principal payments or deposits with respect to such Long-Term Indebtedness nominally due in the last Fiscal Year in which such Long-Term Indebtedness matures may, at the option of the Borrower, be treated as if they were due as specified in any loan agreement or installment sale/purchase agreement issued in connection with such letter of credit, line of credit, insurance policy or surety bond or pursuant to the repayment provisions of such letter of credit, line of credit, insurance policy or surety bond (or, if such loan agreement or installment sale/purchase agreement or repayment provisions provide for repayment over less than 20 years and the Trustee receives a Statement of the Borrower to the effect that the Borrower intends to refinance such Long-Term Indebtedness prior to maturity, as if they were amortized over a 20-year period with substantially level debt service) and interest on such Long-Term Indebtedness after such Fiscal Year shall be assumed to be payable at an interest rate equal to a rate per annum equal to the 25-year revenue bond index most recently published preceding the date of calculation in The Bond Buyer (subject to any adjustment for errors therein which may be acknowledged by the publishers thereof);

(2) if interest on Long-Term Indebtedness is payable pursuant to a variable interest rate formula, the interest rate on such Long-Term Indebtedness for periods when the actual interest rate cannot yet be determined shall be assumed to be equal to the greater of

(a) the average rate of interest borne (or which would have been borne) by such Long-Term Indebtedness during the Fiscal Year immediately preceding the date of calculation plus one percent (1%), or

(b) the average rate of interest borne by such Long-Term Indebtedness during the three full calendar months immediately preceding the date of calculation plus one percent (1%);

(3) if interest is capitalized with respect to Long-Term Indebtedness, Debt Service on such Long-Term Indebtedness shall be included in computations of Maximum Aggregate Annual Debt Service under the Regulatory Agreement only in proportion to the amount of interest payable in the then-current Fiscal Year from sources other than amounts funded to pay such capitalized interest;

(4) with respect to a Guarantee, there shall be included in the Debt Service of the Borrower:

(a) twenty-five percent (25%) of the Borrower's maximum possible monetary liability under the Guarantee in any Fiscal Year unless the Guarantee is drawn upon, and

(b) one hundred percent (100%) of the Borrower's monetary liability under the Guarantee which has been drawn upon, until such time as all amounts drawn upon the Guarantee have been repaid to the Borrower, and for two Fiscal Years thereafter; and

(5) if moneys or Investment Securities described in the Indenture (not callable by the issuer thereof prior to maturity) have been deposited with a trustee or escrow agent in an amount, together with earnings thereon, sufficient to pay the principal of or interest on Long-Term Indebtedness as it comes due, such principal or interest, as the case may be, shall not be included in computations of Debt Service.

"*Deed of Trust*" means the Deed of Trust with Fixture Filing and Security Agreement dated as of the same date as the Regulatory Agreement, to be executed by the Borrower, as trustor, in favor of the Deed Trustee for the benefit of the Office and the Trustee, as beneficiaries, as amended, modified and supplemented from time to time

"*Deed Trustee*" means the Person at the time serving as such under the Deed of Trust.

"*Depository*" means The Depository Trust Company and its successors and assigns, or any other Securities Depository selected as set forth in the Indenture, which agrees to follow the procedures required to be followed by such depository in connection with the Bonds.

"*Dissemination Agent*" means the dissemination agent identified in the Continuing Disclosure Agreement.

"*Environmental Claim*" means any accusation, allegation, notice of violation, claim, demand, abatement order or other order or direction (conditional or otherwise) by any governmental authority or any person for any damage, including, without limitation, personal injury (including sickness, disease or death), tangible or intangible property damage, contribution, indemnity, indirect or consequential damages, damage to the environment, nuisance, pollution, contamination or other adverse effects on the environment, or for fines, penalties or restrictions, resulting from or based upon:

a. the existence of a Release (whether sudden or nonsudden or accidental or non-accidental) of, or exposure to, any Hazardous Material, in, into or onto the environment at, in, by, from or related to the Facilities,

b. the use, handling, transportation, storage, treatment or disposal of Hazardous Materials in connection with the operation of the Facilities, or

c. the violation, or alleged violation, of any statutes, ordinances, orders, rules, regulations, permits, licenses or authorizations of or from any governmental authority, agency or court relating to environmental matters connected with the Facilities.

"*Environmental Indemnities*" means the indemnities executed by the Borrower, as indemnitor, in favor of the Office, the Authority, the Trustee and the other parties named therein, as indemnitees, each setting forth certain indemnification obligations relating to Hazardous Materials.

"*Environmental Laws*" means all present and future federal, state or local laws, rules or regulations relating to environmental matters, permits, pollution, waste disposal, industrial hygiene, land use and other requirements of governmental authorities relating to the environment or to any Hazardous Material or Hazardous Material Activity (including, without limitation, CERCLA and the applicable provisions of the California Health and Safety Code and the California Water Code) or the protection of human or animal health or welfare, including, without limitation, those related to any Release or threatened Release of Hazardous Materials and to the generation, use, storage, transportation, or disposal of Hazardous Materials, in any manner applicable to the Borrower or the Facilities.

"*Environmental Regulations*" means any federal, state or local law, statute, code, ordinance, regulation, requirement or rule relating to dangerous, toxic or hazardous pollutants, Hazardous Substances or chemical waste, materials or substances.

"*Event of Default*" means any of the events specified as such in the Indenture.

"*Existing Facility*" means the Borrower's existing 431-unit continuing care retirement community and attached 99-bed skilled nursing facility.

"*Facilities*" means (a) the real property described in the Regulatory Agreement and all real property required to be added, from time to time, pursuant to the Regulatory Agreement; (b) all buildings and structures thereon and fixtures and improvements thereto, whether now existing or hereafter constructed, installed or acquired; and (c) all tangible personal property owned by the Borrower, whether now existing or hereafter constructed, installed or acquired, and used in, around or about the aforesaid real property, including but not limited to the personal property described in the Regulatory Agreement.

"*Fiscal Year*" means the period commencing August 1 and ending July 31, or such other twelve-month period hereafter selected and designated as the official fiscal year period of the Borrower.

"*501 (c)(3) Organization*" means an organization described in section 501(c)(3) of the Code.

"*Gross Revenue Fund*" means the fund by that name established pursuant to the Loan Agreement.

"*Gross Revenues*" means all revenues, income, receipts and money received in any period by the Borrower (other than donor-restricted gifts, grants, bequests, donations, contributions, and tax revenues), including, but without limiting the generality of the foregoing, the following: (a) gross revenues derived from their operation and possession of and pertaining to their properties,

(b) proceeds with respect to, arising from, or relating to their properties and derived from (1) insurance (including business interruption insurance) or condemnation proceeds, except to the extent such proceeds are required by the terms of the Regulatory Agreement (or other agreements with respect to the Indebtedness which the Borrower is permitted to incur pursuant to the terms of the Regulatory Agreement) to be used for purposes inconsistent with their use for the payment of Loan Repayments, Additional Payments or similar payments with respect to Parity Debt, (2) accounts, including but not limited to, accounts receivable, (3) securities and other investments, (4) inventory and intangible property, (5) payment/reimbursement programs and agreements, and (6) contract rights, accounts, instruments, claims for the payment of moneys and other rights and assets now or hereafter owned, held or possessed by or on behalf of the Borrower, and (c) rentals received from the lease of the Borrower's properties or space in its facilities.

"*Guarantee*" means any obligation of the Borrower guaranteeing in any manner, whether directly or indirectly, any obligation of any Person which would, if such Person were the Borrower, constitute Long-Term Indebtedness.

"*Hazardous Material Activity*" means any actual, proposed or threatened storage, holding, existence, release, emission, discharge, generation, processing, abatement, removal, disposition, handling or transportation of any Hazardous Materials from, under, into or on the Facilities or the Project or surrounding property.

"*Hazardous Substances*" means (a) any oil, flammable substance, explosives, radioactive materials, hazardous wastes or substances, toxic wastes or substances or any other wastes, materials or pollutants which (i) pose a hazard to the Facilities or to persons on or about the Facilities or (ii) cause the Facilities to be in violation of any Environmental Regulation; (b) asbestos in any form which is or could become friable, urea formaldehyde foam insulation, transformers or other equipment which contain dielectric fluid containing levels of polychlorinated biphenyls, or radon gas; (c) any chemical, material or substance defined as or included in the definition of "waste," "hazardous substances," "hazardous wastes," "hazardous materials," extremely hazardous waste," "restricted hazardous waste," or "toxic substances" or words of similar import under any Environmental Regulation including, but not limited to, the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), 42 USC §§ 9601 et seq.; the Resource Conservation and Recovery Act ("RCRA"), 42 USC §§ 6901 et seq.; the Hazardous Materials Transportation Act, 49 USC §§ 1801 et seq.; the Federal Water Pollution Control Act, 33 USC §§ 1251 et seq.; the California Hazardous Waste Control Law ("HWCL"), Cal. Health & Safety §§ 25100 et seq.; the Hazardous Substance Account Act ("HSAA"), Cal. Health & Safely Code §§ 25300 et seq.; the Underground Storage of Hazardous Substances Act, Cal. Health & Safety §§ 25280 et seq.; the Porter-Cologne Water Quality Control Act (the "Porter-Cologne Act"), Cal. Water Code §§ 13000 et seq., the Safe Drinking Water and Toxic Enforcement Act of 1986 (Proposition 65); and Title 22 of the California Code of Regulations, Division 4, Chapter 30; (d) any other chemical, material or substance, exposure to which is prohibited, limited or regulated by any governmental authority or agency or may or could pose a hazard to the health and safety of the occupants of the Facilities or the owners and/or occupants of property adjacent to or surrounding the Facilities, or any other person coming upon the Facilities or adjacent property; or (e) any other chemical, materials or substance which may or could pose a hazard to the environment.

"*Indebtedness*" means (a) any Guarantee, and (b) any indebtedness or obligation of the Borrower (other than accounts payable and accruals), as determined in accordance with generally accepted accounting principles, including obligations under conditional sales contracts or other title retention contracts, and rental obligations under leases which are considered capital leases under generally accepted accounting principles. Indebtedness shall not include Non-recourse Indebtedness.

"*Indenture*" means that certain Bond Indenture, dated as of January 1, 2010, by and between the Authority and the Trustee, as amended, modified and supplemented from time to time, relating to the Bonds.

"*Independent,*" when referring to an Accountant, Counsel, Management Consultant or Person, means an Accountant, Counsel, Management Consultant or Person who (a) is independent of and not under the control of the Borrower, (b) does not have any substantial interest, direct or indirect, in the Borrower, and (c) in the case of an individual, is not connected, including through a spouse, with the Borrower as a director, officer or employee of the Borrower, and in the case of a firm, is not connected with the Borrower as a partner, director, officer or employee of the Borrower, but who may be regularly retained by the Borrower.

"*Information Services*" means Financial Information, Inc.'s "Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; FIS/Mergent, Inc., 5250 77 Center Drive, Suite 150, Charlotte, North Carolina 28217, Attn: Call Notification; Standard & Poor's Securities Evaluation, Inc., 55 Water Street, 45th Floor, New York, New York 10041, Attention: Notification Department; Xcitek, 5 Hanover Square, New York, New York 10004; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other information services providing information with respect to the redemption of bonds as the Authority may designate in a Certificate of the Authority filed with the Trustee.

"*Insurance and Condemnation Proceeds Fund*" means the fund by that name established pursuant to the Indenture.

"*Insurance Law*" means Chapter I, Part 6, Division 107 of the Health and Safety Code of the State, cited as the "California Health Facility Construction Loan Insurance Law" as now in effect and as it may from time to time hereafter be amended or supplemented.

"*Interest Account*" means the account by that name in the Revenue Fund established pursuant to the Indenture.

"*Interest Payment Date*" means March 1 and September 1, commencing March 1, 2010.

"*Interest Rate Agreement*" means collectively, an ISDA Master Agreement, dated as of April 29, 2007, between the Borrower and Morgan Stanley Capital Services Inc, together with the Amended and Restated Schedule thereto, dated as of February 7, 2008, a Credit Support Annex dated as of April 20, 2007 a Confirmation, dated as of April 20, 2007, reflecting a transaction having an initial notional amount of $28,700,000.00, an effective date of August 1, 2008, and a termination date of September 1, 2036.

"*Investment Securities*" means any of the following:

(a) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the

United States of America) or obligations the timely payment of the principal of and interest on which are fully guaranteed by the United States of America, including instruments evidencing an ownership interest in securities described in this clause (a) such as CATS, TIGRs, Treasury Receipts and Stripped Treasury Coupons;

(b) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America (including stripped securities if the agency has stripped them itself)

(1) U.S. Export-Import Bank;

(2) Farmers Home Administration;

(3) Federal Financing Bank;

(4) Federal Housing Administration;

(5) General Services Administration;

(6) Government National Mortgage Association ("GNMA") (including guaranteed mortgage-backed bonds and guaranteed pass-through obligations);

(7) Rural Economic Community Development Administration

(8) Small Business Administration

(9) U.S. Maritime Administration (guaranteed Title XI financing); and

(10) U.S. Department of Housing and Urban Development (including project notes, local authority bonds, new communities debentures, U.S. government guaranteed debentures, U.S. Public Housing Notes and Bonds and U.S. government guaranteed public housing notes and bonds;

(c) Debentures, bonds, notes or other evidence of indebtedness issued or guaranteed by any of the following U.S. government agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America (including stripped securities if the agency has stripped them itself):

(1) Federal Home Loan Bank System (senior debt obligations);

(2) Resolution Funding Corporation (REFCORP) obligations;

(3) Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac") senior debt obligations or participation certificates;

(4) Federal National Mortgage Association (FNMA or "Fannie Mae") mortgage-backed securities and senior debt obligations;

(5) Senior debt obligations of other government sponsored agencies approved by the Office.

(d) Investments in money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of AAAm-G, AAAm or better (including funds for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Trustee provide investment advisory or other management services);

(e) Pre-refunded municipal obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(1) which are rated, based on an irrevocable escrow account or fund (the "Escrow"), in the highest rating category of Moody's or S&P or any successors thereto; or

(2) (i) which are fully secured as to principal, interest and redemption premium, if any, by an Escrow consisting only of cash or obligations described in paragraph (a) above, which Escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which Escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(f) Repurchase agreements fully secured by collateral security described in clauses (a) (b), (c), or (h) of this definition, which collateral (i) is held by the Trustee or a third party agent during the term of such repurchase agreement, (ii) is not, pursuant to the terms of such agreement, subject to liens or claims of third parties and (iii) has a market value (determined at least once every fourteen days) at least equal to the amount so invested;

(g) banker's acceptances or certificates of deposit of, or time deposits in, any bank (including the Trustee or any of its affiliates) or savings and loan association (i) which certificates of deposit or time deposits are fully insured by the Federal Deposit Insurance Corporation or (ii) which certificates of deposit or time deposits are secured at all times, in the manner and to the extent provided by law, by collateral security (described in clauses (a), (b), (c), or (h) of this definition) with a market value (valued at least quarterly) of no less than the original amount of moneys so invested;

(h) Municipal obligations rated "Aaa/AAA" on the basis of insurance or credit enhancement, provided the underlying rating of the municipal obligation must be at least "Baa/BBB", uninsured or unenhanced municipal obligations rated at lease Aa2/AA or general obligations of states with a rating of "A2/A" by both Moody's or S&P;

(i) U.S. dollar denominated deposit accounts, federal funds or bankers acceptances with domestic commercial banks which may include the Trustee and its affiliates which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P (for purposes of rating, ratings on holding companies are not considered as the rating of the bank) and maturing not more than 360 calendar days after the date of purchase; and

(j) Other forms of investments approved in writing by the Office.

"*Loan Agreement*" means that certain Loan Agreement, dated as of January 1, 2010, between the Authority and the Borrower, as originally executed and as amended from time to time in accordance with its terms.

"*Loan Default Event*" means any of the events specified in the Loan Agreement.

"*Loan Repayments*" means the payments so designated and required to be made by the Borrower pursuant to the Loan Agreement.

"*Long-Term Indebtedness*" means Indebtedness having an original maturity greater than one (1) year or renewable at the option of the Borrower for a period greater than one (1) year from the date of original incurrence or issuance thereof unless, by the terms of such Indebtedness, no Indebtedness is permitted to be outstanding thereunder for a period of at least thirty (30) consecutive days during each calendar year.

"*Management Agent*" means that Person or those Persons with whom the Borrower has entered into a contract, whether as an independent contractor or employee, for managerial services, relating to the management or operation of all or substantially all of the Facilities. In the event the Borrower does not have a separate management contract, then "Management Agent" shall mean all of those Persons serving as the Borrower's chief executive officer, chief financial officer, chief operating officer, or other similar officers. In the event the Borrower does not have such officers, then "Management Agent" shall mean all of those Persons that manage or operate all or any substantial portion of the Facilities.

"*Management Consultant*" means an Independent Person of national reputation qualified to report on questions relating to the financial condition and projections of health facilities, selected by the Borrower and acceptable to the Office and so long as such Management Consultant is acceptable to the Office.

"Mandatory Sinking Account means the account of that name established in the Principal Account of the Revenue Fund pursuant to the Indenture.

"*Mandatory Sinking Account Payment*" means, with respect to Term Bonds of any maturity, the amount required by the Indenture to be paid on any single date for the retirement of Term Bonds of such maturity.

"*Maximum Aggregate Annual Debt Service*" means, as of any date of calculation, the Aggregate Debt Service as computed for the then current or any future Fiscal Year in which such sum shall be largest.

"Maximum Annual Bond Service" means the maximum amount of principal and interest payable during the current or any succeeding Bond Year on the Bonds (determined as of the Closing Date)

"*Maximum Annual Debt Service,*" when used with respect to any item of Long-Term Indebtedness, means, as of any date of calculation, the maximum amount of Debt Service to become due on such Long-Term Indebtedness in the current or any future Fiscal Year after the date of calculation.

"*Moody 's* " means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Authority.

"*Net Income Available for Debt Service*" means, with respect to any period, the excess of revenues (including cash entrance fess received, net of refunds but excluding amortized entrance fees) over expenses from operations of the Borrower for such period, determined in accordance with generally accepted accounting principles, to which shall be added unrestricted non-operating net income, interest, amortization, depreciation expense and other non-cash charges, each item determined in accordance with generally accepted accounting principles, and excluding: (a) any profits or losses on the sale or other disposition, not in the ordinary course of business, of investments or fixed or capital assets or resulting from the early extinguishment of debt, (b) gifts, grants, bequests, donations and contributions, to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of Debt Service or operating expenses, (c) the net proceeds of insurance (other than business interruption insurance) and condemnation awards, (d) changes in net unrealized gain (loss) on investments and (e) non-cash revenues.

"*Non-recourse Indebtedness*" means any indebtedness of the Borrower, which is not a general obligation of the Borrower and is secured by a lien on property of the Borrower, liability for which is effectively limited to the property subject to such lien (which property is not integral to the operation of the Facilities) with no recourse, directly or indirectly, to any other property of the Borrower.

"*Office*" means the Office of Statewide Health Planning and Development of the Health and Human Services Agency of the State, or its successors.

"*Opinion of Counsel*" means a written opinion of counsel (including, without limitation, counsel for the Authority) selected by the Authority and delivered to the Trustee. If and to the extent required by the provisions of the Indenture, each Opinion of Counsel shall include the statements provided for in the Indenture.

"*Optional Redemption Account*" means the account by that name in the Redemption Fund established pursuant to the Indenture.

"*Original Purchaser*" means the original purchaser of the Bonds.

"*Outstanding,*" when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (b) Bonds with respect to which all liability of the Authority shall have been discharged in accordance with the Indenture, including Bonds (or portions of Bonds) referred to in the Indenture; and (c) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture.

"*Owner,*" whenever used in the Indenture with respect to a Bond, means the Person in whose name such Bond is registered.

"*Parity Debt*" means Long-Term Indebtedness which is incurred by the Borrower in accordance with the provisions of the Regulatory Agreement and secured equally and ratably with the obligations of the Borrower under the Loan Agreement by a lien on and security interest in the Gross Revenues and the Deed of Trust.

"*Permitted Encumbrances*" means and includes:

a. undetermined liens and charges incident to construction or maintenance, and liens and charges incident to construction or maintenance now or hereafter filed of record which are being contested in good faith and have not proceeded to final judgment (and for which all applicable periods for appeal or review have not expired), provided that the Borrower shall have set aside reserves with respect thereto which, in the opinion of the Office, are adequate;

b. notices of /is pendens or other notices of or Liens with respect to pending actions which are being contested in good faith and have not proceeded to final judgment (and for which all applicable periods for appeal or review have not expired), provided that the Borrower shall have set aside reserves with respect thereto which, in the opinion of the Office, are adequate;

c. the lien of taxes and assessments which are not delinquent, or, if delinquent, are being contested in good faith, provided that the Borrower shall have set aside reserves with respect thereto which, in the opinion of the Board, are adequate;

d. minor defects and irregularities in title to the Facilities which in the aggregate do not materially adversely affect the value or operation of the Facilities for the purposes for which they are or may reasonably be expected to be used;

e. easements, exceptions or reservations for the purpose of ingress and egress, parking, pipelines, telephone lines, telegraph lines, power lines and substations, roads, streets, alleys, highways, railroad purposes, drainage and sewerage purposes, dikes, canals, laterals, ditches, the removal of oil, gas, coal or other minerals, and other like purposes, or for the joint or common use of real property, facilities and equipment, which in the aggregate do not materially interfere with or impair the operation of the Facilities for the purposes for which they are or may reasonably be expected to be used;

f. rights reserved to or vested in any municipality or governmental or other public authority to control or regulate or use in any manner any portion of the Facilities which do not materially impair the operation of the Facilities for the purposes for which they are or may reasonably be expected to be used;

g. present or future valid zoning laws and ordinances;

h. the rights of the Authority, the Borrower, the Office, the Trustee and holders of Parity Debt under the Loan Agreement, the Indenture, the Regulatory Agreement and the Deed of Trust and the lien and charge of the Indenture, the Regulatory Agreement and the Deed of Trust;

i. liens securing indebtedness for the payment, redemption or satisfaction of which money (or evidences of indebtedness) in the necessary amount shall have been deposited in trust with a trustee or other holder of such indebtedness;

j. purchase money security interests and security interests either (i) existing on any personal property prior to the time of its acquisition by the Borrower through purchase, merger, consolidation or otherwise, whether or not assumed by the Borrower, or (ii) placed upon property being acquired by the Borrower to secure a portion of the purchase price thereof, or lessor's interests in leases required to be capitalized in accordance with generally accepted accounting principles;

k. statutory liens arising in the ordinary course of business which are not delinquent or are being contested in good faith by the Borrower;

l. the lease or license of the use of a part of the Facilities for use by patients, residents and others in connection with the proper operation of the Facilities in accordance with customary business practices in the health and residential care industries;

m. liens or encumbrances existing as of the date of initial execution and delivery of the Bonds as listed on Exhibit D to the Regulatory Agreement;

n. liens securing Parity Debt on a parity with the obligations of the Borrower under the Regulatory Agreement;

o. statutory rights of the United States of America to recover against the Borrower by reason of federal funds made available under 42 U.S.C. § 291 et seq., and similar rights under other federal and state statutes; and

p. other liens and encumbrances specifically approved in writing by the Office.

"*Person*" means a person, individual, company, firm, association, organization, partnership, trust, corporation or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof..

"*Principal Account*" means the account by that name in the Revenue Fund established pursuant to the Indenture.

"*Principal Corporate Trust Office*" means the office of the Trustee, at 633 West Fifth Street, 24th Floor, Los Angeles, CA 90071, Attention: Corporate Trust Services, or such other or additional offices as may be specified to the Authority by the Trustee except that, with respect to presentation of Bonds for payment or for registration of transfer and exchange, such term shall mean the office or agency of the Trustee at which at any particular time, its corporate trust agency shall be conducted, or such other office designated by the Trustee from time to time, or at such other or additional offices as may be specified by the Trustee in writing to the Authority.

"*Program*" means the Authority's program of making loans under the Act.

"*Project*" means the Project set forth on the cover of the Regulatory Agreement.

"*Project Fund*" means the fund by that name established by the Indenture.

"Qualified Project Costs" means costs of the Project which constitute costs for property which is to be owned by the Borrower and will not be used in an "unrelated trade or business" (as such term is used in Section 513(a) of the Code) of the Borrower (or any other organization described in Section 501(c)(3) of the Code) or in the trade or business of a person who is neither a governmental unit nor an organization described in Section 501(c)(3) of the Code; provided, however, that Costs of Issuance are not Qualified Project Costs and that letter of credit fees, municipal bond insurance premiums or other guaranty fees and any capitalized interest on the Bonds shall be allocated between Qualified Project Costs to be paid or reimbursed from proceeds of the Bonds and costs other than Qualified Project Costs to be paid or reimbursed from the proceeds of the Bonds.

"*Rating Category*" means (a) with respect to any long-term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign or other modifier and (b) with respect to any short-term or commercial paper rating category, all ratings designated by a particular letter or combination of letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.

"*Rebate Amount*" means the excess of the future value, as of a computation date, of all receipts on nonpurpose investments (as defined in Section 1.148-1(b) of the Income Tax Regulations) over the future value, as of that date, of all payments on nonpurpose investments, all as provided by regulations under the Code implementing Section 148 thereof.

"*Rebate Fund*" means the Rebate Fund established in the Indenture and relating to the Bonds.

"*Record Date*" means, with respect to any Interest Payment Date for the Bonds, the first (1st) day of the calendar month preceding such Interest Payment Date whether or not such day is a Business Day.

"*Redemption Fund*" means the fund by that name established pursuant to the Indenture.

"*Redemption Price*" means, with respect to any Bond (or portion thereof), the principal amount of such Bond (or portion thereof) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and the Indenture.

"*Refunded Bonds*" means ABAG Finance Authority for Nonprofit Corporations Variable Rate Revenue Refunding Bonds (Casa de las Campanas, Inc.) Series 2007A and Taxable Variable Rate Revenue Refunding Bonds (Casa de las Campanas, Inc.) Series 2007B.

"*Regulatory Agreement*" means that certain Regulatory Agreement, dated as of January 1, 2010, among the Authority, the Office and the Borrower, as originally executed and as amended from time to time in accordance with its terms.

"*Release*" means any release, spill, emission, leaking, pumping, pouring, injection, escaping, deposit, disposal, discharge, dispersal, leaching, or migration into the indoor or outdoor environment (including, without limitation, the abandonment or disposal of any barrels, containers or other closed receptacles containing any Hazardous Materials), or into or out of the Facilities, including the movement of any Hazardous Material through the air, soil, surface water, groundwater or property.

"*Reserved Rights*" means the rights of the Authority pursuant to Sections 4.2, 5.6, 5.7, 6.4, 7.2, 7.3, 8.4 and 9.9 of the Loan Agreement, Sections XXXII, XXXVI, and XXXIX of the Regulatory Agreement, and Section 15 of the Contract of Insurance.

"*Revenue Fund*" means the fund by that name established pursuant to the Indenture.

"*Revenues*" means all amounts received by the Authority or the Trustee pursuant or with respect to the Loan Agreement, including, without limiting the generality of the foregoing, Loan Repayments (including both timely and delinquent payments and any late charges, and regardless of source), prepayments, insurance proceeds, payments received pursuant to the Insurance Law, condemnation proceeds, and all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Indenture, but not including (1) any Additional Payments, or (2) any amounts paid to the Authority or the Trustee pursuant to rights of indemnification.

"*Risk Management Consultant*" means an Independent Person having experience and a favorable reputation in consulting on the insurance requirements of health facilities in the State of the general size and character of the Facilities, selected by the Borrower and acceptable to the Office, and so long as such Risk Management Consultant is acceptable to the Office. The initial Risk Management Consultant of the Borrower, Arthur J. Gallagher Risk Management Services, Inc., is acceptable to the Office.

"*S&P*" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Authority.

"*Securities Depositories*" means The Depository Trust Company, 55 Water Street, 50th Floor, New York, New York 10041-0099 Attn: Call Notification Department, Fax (212) 855-7232 or, in accordance with the then current guidelines of the Securities and Exchange Commission, to such other addresses and/or such other securities depositories, or to no such depositories, as the Authority may designate in a Certificate of the Authority delivered to the Trustee.

"*Serial Bonds*" means the Bonds, falling due by their terms in specified years, for which no Mandatory Sinking Account Payments are provided.

"*Short-Term Indebtedness*" means Indebtedness having an original maturity less than or equal to one year and not renewable at the option of the Borrower for a term greater than one year from the date of original incurrence or issuance unless, by the terms of such Indebtedness, no Indebtedness is permitted to be outstanding thereunder for a period of at least thirty (30) consecutive days during each calendar year.

"*Special Record Date*" means the date established by the Trustee pursuant to the Indenture as a record date for the payment of defaulted interest on Bonds.

"*Special Redemption Account*" means the account by that name in the Redemption Fund established pursuant to the Indenture.

"*State*" means the State of California.

"*Statement*" means a written certification, certificate or statement or other appropriate written instrument normally provided in the applicable circumstance where required by the Regulatory Agreement to be provided or delivered by the Accountant, counsel, insurance agent, the Risk Management Consultant, the Management Consultant, the Borrower, the Office or other appropriate Person. The Statement shall be dated and signed by a person authorized to execute the Statement.

"*Supplemental Indenture*" means any indenture hereafter duly authorized and entered into between the Authority and the Trustee, supplementing, modifying or amending the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

"*Tax Certificate*" means either (a) the Certificate as to Tax, Arbitrage, and Other Matters signed by the Borrower concurrently with the issuance of the Bonds, or (b) the Certificate as to Tax, Arbitrage, and Other Matters signed by the Authority concurrently with the issuance of the Bonds, as determined by the context.

"*Tax-Exempt Organization*" means any governmental person as defined by Section 1.141-1(b) of the Income Tax Regulations, or a Person organized under the laws of the United States of America or any state thereof which is (i) an organization described in Section 501(c)(3) of the Code or is treated as an organization described in Section 501(c)(3) of the Code and is not a private foundation under Section 509(a) of the Code, and (ii) exempt from federal income taxes under Section 501(a) of the Code, or corresponding provisions of federal income tax laws from time to time in effect, except for income from an unrelated trade or business as defined in Section 513(a) of the Code.

"*Term Bonds*" means the Bonds payable at or before their specified maturity date or dates from Mandatory Sinking Account Payments established for that purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

"*Trustee*" means U.S. Bank National Association, as trustee, together with the Trustee's permitted successors as trustee, under the Indenture.

LOAN AGREEMENT

The Loan Agreement provides the terms of the loan of the Bond proceeds to the Borrower and the repayment of and security for such loan provided by the Borrower. Certain provisions of the Loan Agreement are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Loan Agreement.

Loan Repayments

The principal of and interest on the loan of the proceeds of the Bonds under the Loan Agreement will be repaid by means of Loan Repayments, which the Borrower agrees to pay to the Trustee, as assignee of the Authority, for deposit in the Revenue Fund. The Loan Repayments will be due and payable in monthly installments on the first day of each month. Each Loan Repayment shall be in an amount equal to the amount required by the Trustee to make the transfers and deposits required in such month by the Indenture (see "INDENTURE--Allocation of Revenues" herein), taking into account any other funds in the Revenue Fund available for such deposits. Notwithstanding the foregoing, if five business days prior to any interest or principal payment date with respect to the Bonds, the aggregate amount in the Revenue Fund (other than the Bond Reserve Account) is for any reason insufficient or unavailable to make the required payments of principal (or Redemption Price) of or interest on the Bonds then becoming due (whether by maturity, redemption or acceleration), the Borrower shall forthwith pay the amount of any such deficiency to the Trustee.

Additional Payments

In addition to Loan Repayments, the Borrower shall also pay to the Authority or to the Trustee, as the case may be, "Additional Payments", as follows: (1) all taxes and assessments charged to the Authority or the Trustee affecting the amount available to the Authority or Trustee from payments to be received under the Loan Agreement or in any way arising due to the transactions contemplated thereby; (2) all reasonable fees, charges and expenses of the Trustee for services rendered under the Indenture (3) the fees and expenses of such accountants, consultants, attorneys and other experts engaged by the Authority or the Trustee to provide services required under the Loan Agreement, the Bonds, the Tax Certificate or the Indenture; (4) fees and expenses of the Authority in connection with the loan to the Borrower under the Loan Agreement, the Bonds, the Indenture, or any other documents contemplated hereby or thereby; and (5) all other fees and expenses of the Authority attributable to the Loan Agreement, the Bonds or the Indenture. Such Additional Payments shall be billed to the Borrower by the Authority or the Trustee from time to time. The Borrower shall pay Additional Payments within 30 days after receipt of the bill.

The Authority Issuance Fee shall be paid to the Authority by the Borrower on the Closing Date. The Authority Annual Fee shall be due and payable by the Borrower in advance on February 1 of each year, commencing with February 1, 2011.

Gross Revenue Fund

The Borrower agrees that, so long as any of the Loan Repayments remain unpaid, all of the Gross Revenues of the Borrower shall be deposited as soon as practicable upon receipt in a fund designated as the "Gross Revenue Fund" which the Borrower shall establish and maintain in an account or accounts at such banking institution or institutions as the Borrower shall from time to time designate in writing to the Trustee and to the Office for such purpose (the "Depository Bank(s)"). Subject only to the provisions of the Loan Agreement permitting the application thereof for the purposes and on the terms and conditions set forth therein, the Borrower thereby pledges, and to the extent permitted by law grants a security interest to the Trustee and to the Office in, the Gross Revenue Fund and all of the Gross Revenues of the Borrower to secure the payment of Loan Repayments and the performance by the Borrower of its other obligations under the Loan Agreement and the Regulatory Agreement and with respect to Parity Debt.

Amounts in the Gross Revenue Fund may be used and withdrawn by the Borrower at any time for any lawful purpose, except as provided in the Loan Agreement. In the event that the Borrower is delinquent for more than one Business Day in the payment of any Loan Repayment or any payment required with respect to Parity Debt, the Authority or the Trustee shall notify the Borrower, the Office and the Depository Bank(s) of such delinquency, and, unless such Loan Repayment or payment with respect to Parity Debt is paid within ten days after receipt of such notice, upon request of the Trustee, the Borrower shall cause the Depository Bank(s) to transfer the Gross Revenue Fund to the name and credit of the Trustee, but only with the consent of the Office (provided that such consent shall be required only if the Contract of Insurance is in effect and the Office is not in default thereunder). All Gross Revenues of the Borrower shall continue to be deposited in the Gross Revenue Fund as provided above in this paragraph but to the name and credit of the Trustee until the amounts on deposit in said fund are sufficient to pay in full, or have been used to pay in full, all Loan Repayments and payments with respect to Parity Debt in default and all other Loan Default Events and events of default with respect to Parity Debt known to the Trustee shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, whereupon the Gross Revenue Fund (except for the Gross Revenues required to make such payments or cure such defaults) shall be returned to the name and credit of the Borrower. During any period that the Gross Revenue Fund is held in the name and to the credit of the Trustee, the Trustee shall use and withdraw amounts in said fund from time to time to make Loan Repayments; Additional Payments, and the other payments required of the Borrower under the Loan Agreement or with respect to any Parity Debt as such payments become due (whether by maturity, redemption, acceleration or otherwise), and, if such amounts shall not be sufficient to pay in full all such payments due on any date, then to the payment of Loan Repayments, Additional Payments and Debt Service on such Parity Debt ratably, according to the amounts due respectively for Loan Repayments and such Debt Service, without any discrimination or preference, and to such other payments in the order which the Trustee, in its discretion, shall determine to be in the best interests of the holders of the Bonds and such Parity Debt, without discrimination or preference. During any period that the Gross Revenue Fund is held in the name and to the credit of the Trustee, the Borrower shall not be entitled to use or withdraw any of the Gross Revenues of the Borrower unless and to the extent that the Trustee at its sole discretion (or as directed by the Office) so directs for the payment of current or past due operating expenses of the Borrower; provided, however, that the Borrower shall be entitled to use or withdraw any amounts in the Gross Revenue Fund which do not constitute Gross Revenues of the Borrower. The Borrower agrees that a failure to comply with the terms of the section in the Loan Agreement relating to the Gross Revenue Fund shall cause irreparable harm to the holders from time to time of the Bonds and of Parity Debt, and shall entitle the Trustee, with or without notice to the Borrower but with the consent of the Office (provided that such consent shall be required only if the Contract of Insurance is in effect and the Office is not in default thereunder), to take immediate action to compel the specific performance of the obligations of the Borrower as provided in the Loan Agreement.

Security for Borrower's Obligations

In consideration of the issuance of the Bonds and the loan of the proceeds thereof to the Borrower and to secure the payment of Loan Repayments and the performance of the other obligations of the Borrower under the Loan Agreement, the Borrower pledges and grants a security interest (subject to Permitted Encumbrances) to the Trustee and the Office, as their interests may appear, in the Facilities. The Borrower has entered into a Deed of Trust to further secure its obligations thereunder. The Borrower agrees to execute and cause to be filed Uniform Commercial Code financing statements in form and substance satisfactory to the Office, and to execute and deliver such other documents (including, but not limited to, subordination agreements and continuation statements) as the Authority or the Office may reasonably require in order to perfect or maintain as perfected such security interest or give public notice thereof. The Deed of Trust, pursuant to its terms, may be amended and property released therefrom upon written notice to the Trustee with the consent of the Office without the necessity of obtaining the consent of the Authority, the Trustee or the Bondholders.

Unconditional Obligations of the Borrower; Net Contract

The obligations of the Borrower to make the Loan Repayments and Additional Payments and to perform and observe the other agreements on its part under the Loan Agreement are absolute and unconditional.

Prepayment

Under the Loan Agreement, the Borrower shall have the right at any time or from time to time to prepay all or any part of the Loan Repayments. All such prepayments (and the additional payment of any amount necessary to pay the applicable premiums, if any, payable upon the redemption of the Bonds) shall be deposited in the Redemption Fund and used for the redemption or purchase of Outstanding Bonds as set forth in the Indenture.

Prohibited Uses

No portion of the Loan Amount will be used to finance or refinance any facility, place or building used or to be used primarily for sectarian instruction or study or as a place for devotional activities or religious worship, or primarily in connection with any part of the program of a school or department of divinity for any religious denomination.

Maintenance of Corporate Existence of the Borrower

Except as permitted pursuant to the Regulatory Agreement, the Borrower shall maintain its existence as a nonprofit public benefit corporation of the State, and shall operate a health facility (as that term is defined in the Insurance Code).

Tax Covenants

With respect to the Bonds, the Borrower represents and covenants that it will comply with the requirements and conditions of the Loan Agreement and the Tax Certificate, and it has not executed nor will it execute any agreement with provisions contradictory to, or in opposition to, the provisions thereof. The Borrower acknowledges that such covenants are designed for the purpose of ensuring that the Bonds are treated as consisting of obligations described in Section 103(a) of the Code. Without limiting the foregoing, the Borrower also represents and covenants that, notwithstanding any provision of the Loan Agreement or the rights of the Borrower thereunder, it has not taken, and will not take or omit to take, or permit to be taken on its behalf by any other party, any action which would cause, or which would reasonably be likely to cause, the interest on the Bonds to be included in gross income for federal income tax purposes. The Borrower will take such reasonable actions as may be necessary to continue such exclusion from gross income, including, without limitation, the preparation and filing of any statement required to be filed by it in order to maintain such exclusion. The Borrower agrees to comply with the applicable requirements of Section 103 and Part IV of Subchapter B of Chapter 1 of Subtitle A of the Code to the extent necessary to preserve the exclusion of interest on the Bonds from gross income for federal income tax purposes.

Continuing Disclosure

The Borrower covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Loan Agreement, failure of the Borrower to comply with the Continuing Disclosure Agreement shall not be considered a Loan Default Event; however, the Trustee shall at the request of the Holders of at least 25% aggregate principal amount in Outstanding Bonds, to the extent indemnified to its satisfaction from any liability, cost or expense, including fees and expenses of its attorneys, or any Bondholder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Borrower to comply with its continuing disclosure obligations. For purposes of this paragraph, "Beneficial Owner" means any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

Licensing

The Borrower agrees to maintain all permits, licenses and other governmental approvals necessary for the operation of the Facilities.

Accounting Records and Financial Statements

The Borrower shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with generally accepted accounting principles, in which complete and accurate entries shall be made of all transactions of or in relation to the business, properties and operations of the Borrower. Such books of record and account shall be available for inspection by the Authority, the Office and the Trustee at reasonable hours and under reasonable circumstances.

Maintenance of the Facilities

The Borrower shall maintain or cause to be maintained, throughout the term of the Loan Agreement, the Facilities as specified in the Loan Agreement and the Regulatory Agreement.

Nonliability of Authority

The Authority shall not be obligated to pay the principal of, Redemption Price and interest on the Bonds, except from Revenues and other moneys and assets received by the Trustee on behalf of the Authority pursuant to the Loan Agreement. Neither the faith and credit nor the taxing power of the State of California or any political subdivision thereof (including the members of the Authority) nor the faith and credit of the Authority is pledged to the payment of the principal of, Redemption Price or interest on the Bonds. The Authority shall not be liable for any costs, expenses, losses, damages, claims or actions, of any conceivable kind on any conceivable theory, under or by reason of or in connection with the Loan Agreement, the Bonds or the Indenture, except only to the extent amounts are received for the payment thereof from the Borrower under the Loan Agreement.

The Borrower acknowledges that the Authority's sole source of moneys to repay the Bonds will be provided by the Revenues, consisting primarily of Loan Repayments (and the proceeds of the Deed of Trust), together with investment income on certain funds and accounts held by the Trustee under the Indenture, and agrees that if the Revenues shall ever prove insufficient to pay all principal of, Redemption Price or interest on the Bonds as the same shall become due (whether by maturity, redemption, acceleration or otherwise), then upon notice from the Trustee, the Borrower shall pay such amounts as are required from time to time to prevent any deficiency or default in the payment of such principal, Redemption Price or interest, including, but not limited to, any deficiency caused by acts, omissions, nonfeasance or malfeasance on the part of the Trustee, the Borrower, the Authority or any third party, subject to any right of reimbursement from the Trustee, the Authority or any such third party, as the case may be, therefor.

Indemnification

(a) To the fullest extent permitted by law, the Borrower agrees to indemnify, hold harmless and defend the Authority, the Trustee, and each of their respective past, present and future officers, members, directors, officials, employees, attorneys and agents (collectively, the "Indemnified Parties"), against any and all losses, damages, claims, actions, liabilities, costs and expenses of any conceivable nature, kind or character (including, without limitation, reasonable attorneys' fees, litigation and court costs, amounts paid in settlement and amounts paid to discharge judgments) to which the Indemnified Parties, or any of them, may become subject under or any statutory law (including federal or state securities laws) or at common law or otherwise, arising out of or based upon or in any way relating to: (i) the Bonds, the Indenture, the

Loan Agreement, the Regulatory Agreement, the Deed of Trust, the Contract of Insurance, or the Tax Certificate or the execution or amendment hereof or thereof or in connection with transactions contemplated hereby or thereby, including the issuance, sale or resale of the Bonds; (ii) any act or omission of the Borrower or any of its agents, contractors, servants, employees, tenants) or licensees in connection with the Project or the Facilities, the operation of the Project or the Facilities, or the condition, environmental or otherwise, occupancy, use, possession, conduct or management of work done in or about, or from the planning, design, acquisition, installation or construction of, the Project or the Facilities or any part thereof; (iii) any lien or charge upon payments by the Borrower to the Authority and the Trustee hereunder, or any taxes (including, without limitation, all ad valorem taxes and sales taxes), assessments, impositions and other charges imposed on the Authority or the Trustee in respect of any portion of the Project or the Facilities; (iv) any violation of any Environmental Regulations with respect to, or the release of any Hazardous Substances from, the Project or the Facilities or any part thereof; (v) the defeasance and/or redemption, in whole or in part, of the Bonds; (vi) any untrue statement or misleading statement or alleged untrue statement or alleged misleading statement of a material fact contained in any offering statement or disclosure or continuing disclosure document for the Bonds or any of the documents relating to the Bonds, or any omission or alleged omission from any offering statement or disclosure or continuing disclosure document for the Bonds of any material fact necessary to be stated therein in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading; (vii) any declaration of taxability of interest on the Bonds, or allegations that interest on the Bonds is taxable or any regulatory audit or inquiry regarding whether interest on the Bonds is taxable; or (viii) the Trustee's acceptance or administration of the trust of the Indenture, or the exercise or performance of any of its powers or duties thereunder or under any of the documents relating to the Bonds to which it is a party; except (A) in the case of the foregoing indemnification of the Trustee or any of its respective officers, members, directors, officials, employees, attorneys and agents, to the extent such damages are caused by the negligence or willful misconduct of such Indemnified Party; or (B) in the case of the foregoing indemnification of the Authority or any of its officers, members, directors, officials, employees, attorneys and agents, to the extent such damages are caused by the willful misconduct of such Indemnified Party. In the event that any action or proceeding is brought against any Indemnified Party with respect to which indemnity may be sought hereunder, the Borrower, upon written notice from the Indemnified Party, shall assume the investigation and defense thereof, including the employment of counsel selected by the Indemnified Party, and shall assume the payment of all expenses related thereto, with full power to litigate, compromise or settle the same in its sole discretion; provided that the Indemnified Party shall have the right to review and approve or disapprove any such compromise or settlement. Each Indemnified Party shall have the right to employ separate counsel in any such action or proceeding and participate in the investigation and defense thereof, and the Borrower shall pay the fees and expenses of such separate counsel; provided, however, that such Indemnified Party may only employ separate counsel at the expense of the Borrower if in the judgment of such Indemnified Party a conflict of interest exists by reason of common representation or if all parties commonly represented do not agree as to the action (or inaction) of counsel. These obligations of the Borrower shall survive the resignation or removal of the Trustee under the Indenture and payment of the Bonds and discharge of the Indenture and the resignation and removal of the Trustee.

Loan Default Events

The following, among other things, will be "Loan Default Events" under the Loan Agreement: (I) failure to pay in full any payment required under the Loan Agreement when due; (2) if any representation or warranty made by the Borrower in the Loan Agreement or in certain other documents in connection with the issuance of the Bonds shall at any time prove to have been incorrect in any material respect as of the time made; (3) failure by the Borrower to observe or perform any other covenant, condition, agreement or provision in the Loan Agreement for a period of 30 days after written notice to the Borrower by the Authority, the Office or the Trustee, except that if such failure can be remedied but not within such 30 days, and if the Borrower has taken all action reasonably possible to remedy such failure or breach within such 30 days, then such failure shall not become a Loan Default Event for so long as the Borrower diligently attempts such remedy subject to directions and limitations of time established by the Trustee or the Office; (4) if the Borrower abandons the Facilities, or any substantial part thereof and such abandonment continues for a period of 30 days after written notice thereof has been given to the Borrower by the Authority or the Trustee; (5) if any default shall exist under any agreement respecting Long-Term Indebtedness (other than Parity Debt) and if, as a result thereof, Long-Term Indebtedness in an aggregate principal amount in excess of 10% of the Borrower's Adjusted Annual Operating Revenues are declared immediately due and payable or a proceeding for enforcement is brought, except if the Borrower establishes reserves or obtains a surety bond acceptable to the Office for the payment of such Long-Term Indebtedness which, in the opinion of the Office, are adequate; (6) if any default exists under any instrument pursuant to which Parity Debt was issued and is Outstanding and such default continues after the grace period; (7) certain incidents of bankruptcy, insolvency or similar conditions; and (8) any Event of Default under the Indenture.

Any Loan Default Event shall constitute an event of default under the Regulatory Agreement.

Remedies on Default

During the continuance of a Loan Default Event, the Authority or the Trustee, to the extent the Trustee has actual knowledge of such Loan Default Event, may, with the consent of the Office (provided that such consent shall not be required in the case of a Loan Default Event arising from the breach of a tax covenant or if the Contract of Insurance is not in effect or the Office is in default thereunder) among other things, declare all installments of Loan Repayments and Additional Payments payable for the remainder of the term of the Loan Agreement to be immediately due and payable. The Authority or the Trustee may take whatever legal action may be necessary or desirable to enforce the terms of the Loan Agreement.

INDENTURE

The Indenture sets forth the terms of the Bonds, the nature and extent of the security, various rights of the Bondholders, rights, duties and immunities of the Trustee and the rights and obligations of the Authority. Although certain provisions of the Indenture are summarized below, this summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Indenture.

Application of Proceeds of the Bonds

The Trustee shall receive all of the net proceeds loaned to the Borrower from the sale of the Bonds, and the Trustee shall apply such proceeds as follows (in dollar amounts more specifically described in the Indenture): (i) transfer a portion of the net proceeds of the Bonds to the trustee for Refunded Bonds to accomplish the current refunding thereof; (ii) apply a portion of the net proceeds of the Bonds to a payment to Morgan Stanley Capital Services Inc. in connection with the termination of the Interest Rate Agreement; (iii) deposit a portion of the net proceeds of the Bonds to the credit of Cost Issuance Fund; (iv) deposit a portion of the net proceeds of the Bonds to the credit of the Project Fund; (v) deposit a portion of the net proceeds of the Bonds together with certain of the funds in the Debt Service Reserve Fund for the Refunded Bonds to the credit of the Debt Service Reserve Fund; and (vi) apply a portion of the net proceeds of the Bonds to payment of the premiums for the insurance of the Bonds by the Office. The Trustee may, in its discretion, establish such temporary funds or accounts in its books and records to facilitate such transfers.

Establishment of Funds and Accounts

The Indenture creates the Costs of Issuance Fund, the Revenue Fund and the accounts established thereunder, the Redemption Fund and the accounts established thereunder, the Insurance and Condemnation Proceeds Fund, the Project Fund, and the Rebate Fund; all of which are to be held by the Trustee.

Costs of Issuance Fund

The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Costs of Issuance Fund" The moneys in the Costs of Issuance Fund shall be used and withdrawn by the Trustee to pay the Costs of Issuance upon receipt by the Trustee of (i) a Requisition of the Borrower stating the Person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund and (ii) an executed form OSH-CM-134 (or such other form as may be adopted by the Office for such purpose) of the Office stating that such disbursements are authorized and the amounts so authorized. In each such Requisition, the authorized representative of the Borrower shall certify that the requested disbursement for Costs of Issuance of the Bonds, when added to all disbursements from the Cost of Issuance Fund for Costs of Issuance under previous Requisitions, will not result in more than two percent (2%) of the proceeds of the Bonds having been drawn from the Costs of Issuance Fund or otherwise used to pay Costs of Issuance of the Bonds. In the event a disbursement from the Costs of Issuance Fund is made which is not consistent with that certification of the Borrower, the Borrower will promptly repay to the Trustee for deposit in the Costs of Issuance Fund such amount as may be necessary for the certification made by the Borrower in the Requisition to be accurate. Each such requisition shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts. On the one hundred eightieth (180th) day following the initial issuance of the Bonds, or upon the earlier Request of the Borrower, amounts, if any, remaining in the Costs of Issuance Fund shall be transferred to the Project Fund, and the Costs of Issuance Fund shall be closed.

Project Fund

The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Project Fund." Moneys deposited in the Project Fund shall be used and withdrawn by the Trustee, as directed by Requisitions of the Borrower, to pay the costs of the Project. No moneys in the Project Fund shall be used to pay Costs of Issuance or interest accruing on the Bonds.

Before any payment from the Project Fund shall be made, the Borrower shall file or cause to be filed with the Trustee:

(i) a Requisition of the Borrower stating (A) the item number of such payment; (B) the name of the Person to whom each such payment is due (which may be the Borrower in the case of reimbursement for costs of the Project theretofore paid by the Borrower); (C) the respective amounts to be paid; (D) the purpose by general classification for which each obligation to be paid was incurred; (E) that obligations in the stated amounts have been incurred by the Borrower and are presently due and payable and that each item thereof is a proper charge against the Project Fund and has not been previously paid therefrom; (F) that there has not been filed with or served upon the Borrower notice of any lien, right to lien or attachment upon, or claim affecting the right to receive payment of, any of the amounts payable to any of the persons named in such Requisition, which has not been released or will not be released simultaneously with the payment of such obligation, other than materialmen's or mechanics' liens accruing by mere operation of law; and (G) that the balance remaining in the Project Fund after payment of such amounts, together with any investment income reasonably anticipated to be deposited in the Project Fund pursuant to the Indenture and any other funds reasonably anticipated to be available therefor, will be sufficient to pay the costs of completing the Project;

(ii) an executed form OSH-CM-134 (or such other form(s) as may be adopted by the Office for such purpose) of the Office stating that such disbursements are authorized and the amounts so authorized; and

(iii) unless amounts previously deposited in the Project Fund are available for such purpose, a check or checks payable to the Trustee for the portion of each such payment to be paid by the Borrower, if any, as specified in said form OSH-CM-134 (or other form(s) adopted by the Office for such purpose).

Insurance and Condemnation Proceeds Fund

The Trustee will maintain and administer the Insurance and Condemnation Proceeds Fund as set forth in the Loan Agreement and the Regulatory Agreement. See "LOAN AGREEMENT" and "REGULATORY AGREEMENT-Disposition of Insurance and Condemnation Proceeds" herein.

Revenue Fund

All Revenues will be deposited by the Trustee upon receipt in the Revenue Fund which the Trustee will hold in trust and apply in accordance with the Indenture, except as otherwise provided with respect to investment income, moneys required to be deposited in the Redemption Fund, proceeds of insurance and condemnation received pursuant to the Loan Agreement and the Regulatory Agreement, amounts required by the Loan Agreement to be deposited in the Bond Reserve Account and amounts held in the Rebate Fund.

Pledge and Assignment of Revenues

Pursuant to the Indenture, the Authority transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Owners, all of the Revenues and any other amounts (including proceeds of the sale of Bonds) held in any fund or account established pursuant to the Indenture (other than the Rebate Fund) and all of the right, title and interest of the Authority in the Loan Agreement, the Deed of Trust, the Contract of Insurance and the Regulatory Agreement except for the Reserved Rights. The Trustee shall be entitled to and shall collect and receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee. The Trustee also shall be entitled to and subject to the provisions of the Indenture shall take all steps, actions and proceedings reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority and all of the obligations of the Borrower under the Loan Agreement, the Deed of Trust, the Contract of Insurance and the Regulatory Agreement.

Allocation of Revenues

On or before the 10th day of each month, the Trustee shall transfer from the Revenue Fund and deposit into the following respective accounts (each of which the Trustee shall establish and maintain within the Revenue Fund), the following amounts in the following order of priority, the requirements of each such account or fund (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account or fund subsequent in priority:

FIRST: To the Interest Account, one-sixth of the aggregate amount of interest becoming due and payable during the next six months on all Bonds Outstanding, until the balance is equal to said aggregate amount of interest due and payable on said Interest Payment Date; provided, however, that from the date of delivery of the Bonds until the first interest payment date with respect to the Bonds (if less than six months), transfers to the Interest Account shall be sufficient on a monthly pro rata basis to pay the interest becoming due and payable on said principal payment date;

SECOND: To the Principal Account, one-twelfth of the aggregate amount of principal becoming due and payable on the Outstanding Serial Bonds plus one-twelfth of the aggregate amount of Mandatory Sinking Account Payments required to be paid into the respective Sinking Accounts for Outstanding Term Bonds, in each case during the next ensuing twelve months, until the balance in the Principal Account is equal to said aggregate amount of such principal and Mandatory Sinking Account Payments, provided that from the date of delivery of the Bonds until the first principal payment date with respect to the Bonds (if less than twelve months), transfers to the Principal Account shall be sufficient on a monthly pro rata basis to pay the principal becoming due and payable on said principal payment date;

THIRD: To the Bond Reserve Account, (i) one-twelfth of the aggregate amount of each prior withdrawal from the Bond Reserve Account for the purpose of making up a deficiency in the Interest Account or Principal Account (until deposits on account of such withdrawal are sufficient to fully restore the amount withdrawn) provided that no deposit need be made into the Bond Reserve Account if the balance in said account is at least equal to the Bond Reserve Account Requirement, and (ii) in the event the balance in the account shall be less than the Bond Reserve Account Requirement due to the valuation of Investment Securities, the amount necessary to increase the balance in said account to an amount at least equal to the Bond Reserve Account Requirement (until deposits on account of such valuation deficiency are sufficient to increase the balance in said account to said amount); and

FOURTH: To the Rebate Fund, such amounts as directed by the Borrower as are required to be deposited therein by the Indenture (including the Tax Certificate).

Any moneys remaining in the Revenue Fund after the foregoing transfers shall be transferred first to the Office to the extent necessary to repay insurance advances made by the Office, including interest thereon as specified in the Regulatory Agreement, as certified to the Trustee by the Office, and thereafter to the Borrower.

Application of Interest Account and Principal Account

All amounts in the Interest Account shall be used by the Trustee solely for the payment of interest on the Bonds. All amounts in the Principal Account shall be used by the Trustee solely for paying the principal of the Bonds.

Application of Mandatory Sinking Account

The Trustee shall establish and maintain within the Principal Account a separate subaccount for the Bonds, designated as the "Mandatory Sinking Account," inserting therein the maturity (if more than one such account is established) designation of such Bonds. On or before the tenth (10th) day of each month, the Trustee shall transfer the amount deposited in the Principal Account in that month for the purpose of making a Mandatory Sinking Account Payment (if such deposit is required in such month) from the Principal Account to the applicable Sinking Account. With respect to each Sinking Account, on each Mandatory Sinking Account Payment date established for the Sinking Account, the Trustee shall transfer the amount deposited in the applicable Sinking Account for the purpose of applying the Mandatory Sinking Account Payment required on that date to the redemption (or payment at maturity, as the case may be) of Term Bonds, upon the notice and in the manner provided in the Indenture; provided that, at any time prior to giving such notice of such redemption, the Trustee shall apply such moneys to the purchase of Term Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as the Borrower may direct, except that the purchase price (excluding accrued interest) shall not exceed the par amount of such Term Bonds. If, during the twelve-month period immediately preceding said Mandatory Sinking Account Payment date, the Trustee has purchased Term Bonds with moneys in such Sinking Account, or, during said period and prior to giving said notice of redemption, the Borrower has deposited Term Bonds with the Trustee, or Term Bonds were at any time purchased or redeemed by the Trustee from the Redemption Fund and allocable to said Mandatory Sinking Account Payment, such Bonds so purchased or deposited or redeemed shall be applied, to the extent of the full principal amount thereof, to reduce said Mandatory Sinking Account Payment. All Bonds purchased or deposited pursuant to this subsection shall be delivered to the Trustee and canceled. Any amounts remaining in the Sinking Account when all of the Term Bonds for which such account was established are no longer Outstanding shall be withdrawn by the Trustee and transferred to the Revenue Fund. All Term Bonds purchased from a Sinking Account or deposited by the

Borrower with the Trustee shall be allocated first to the next succeeding Mandatory Sinking Account Payment, then to the remaining Mandatory Sinking Account Payments as the Borrower shall direct

Application of Redemption Fund

The Trustee shall establish within the Redemption Fund a separate Optional Redemption Account and a separate Special Redemption Account. Except for as provided in the following paragraph, all amounts deposited in the Optional Redemption Account and Special Redemption Account shall be used by the Trustee solely for the purpose of redeeming Bonds pursuant to the terms of the Indenture at the next succeeding date of redemption for which notice has been given and at redemption prices then applicable to redemptions from the Optional Redemption Account and Special Redemption Account, respectively; provided that, at any time prior to giving such notice of redemption, the Trustee shall, upon direction of the Borrower, apply such amounts to the purchase of Bonds at public or private sale, at prices as provided in the Indenture, and provided further that, in the case of the Optional Redemption Account, in lieu of redemption at such next succeeding date of redemption, or in combination therewith, amounts in such account may be transferred to the Revenue Fund and credited against Loan Repayments in order of their due date as requested by the Borrower.

Application of Bond Reserve Account

The Trustee shall, maintain and hold in trust a separate fund to be known as the "Bond Reserve Account." Subject to the immediately following sentences, all amounts in the Bond Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of making up any deficiency in the Interest Account or Principal Account (but, in each case, only with the consent of the Office) or (together with any other moneys available therefor) for making the final payments of principal of and interest on the Bonds.

Rebate Fund

Section 148(f) of the Code, as implemented by Sections 1.148 0 to 1.148 11 of the Income Tax Regulations (the "Rebate Provisions") requires that, among other requirements and with certain exceptions, the Authority pay to the United States of America the Rebate Amount owed with respect to the Bonds. The Borrower shall timely make or have made all necessary calculations of the Rebate Amount as required to comply with the requirements of the Indenture and the Rebate Provisions and shall deposit or cause the Trustee to deposit into the Rebate Fund from investment earnings on moneys deposited in the other funds and accounts created hereunder, or from any other funds held by the Trustee and available for such purpose, or from other moneys paid by the Borrower to the Trustee for such purpose, the amount necessary to increase the balance in the Rebate Fund to the Rebate Amount. The Borrower shall annually certify in writing the Rebate Amount, if any (and if none is due, that none is due), and the calculations determining the same to the Trustee, and shall instruct the Trustee in writing to make from the Rebate Fund (or to the extent necessary, from other funds of the Borrower delivered to the Trustee) all required payments to the United States of America of the Rebate Amount as shall be required to satisfy the Rebate Provisions, and to the extent the funds held by the Trustee in the Rebate Fund are not sufficient to make payments of such Rebate Amount, the Borrower shall pay to the Trustee an amount necessary to make up such deficiency. In complying with the foregoing, the Borrower may rely upon any instructions from and any opinions of Bond Counsel, including, without limitation, a letter to be delivered by Bond

Counsel to the Borrower and the Trustee on the date of issuance of the Bonds, and upon any certificates, opinions or calculations prepared by certified public accountants or other consultants reasonably selected by the Borrower.

Investments

All moneys in any of the funds and accounts established pursuant to the Indenture shall be invested by the Trustee, upon the written direction of the Borrower, solely in Investment Securities. Moneys in the funds and accounts (other than the Bond Reserve Account and the Rebate Fund) established pursuant to the Indenture shall be invested in Investment Securities maturing not later than the date on which it is estimated that such moneys will be required by the Trustee. Moneys in the Bond Reserve Account shall be invested in Investment Securities maturing prior to the final maturity of the Bonds but in no event longer than five years from the date of investment therein; provided, however, moneys in the Bond Reserve Account may be invested in Investment Securities with a nominal maturity date which is greater than five years as long as said Investment Securities by their terms allow the Trustee to obtain (at any time the Trustee is required to draw on the Bond Reserve Account) the corpus thereto at no less than the purchase price thereof without any loss in value. All interest, profits and other income received from the investment of moneys in the Rebate Fund shall be deposited when received in such fund. All interest, profits and other income received from the investment of moneys in any fund or account established pursuant to the Indenture (other than the Rebate Fund) (i) prior to completion of the Project (determined by the delivery of a Statement of the Borrower in accordance with the Indenture), shall be deposited when received in the Project Fund, and thereafter (ii) shall be transferred when received to the Revenue Fund. All investments of amounts deposited in any fund or account created by or pursuant to the Indenture will be valued at the market value thereof.

Notwithstanding any other provision of the Indenture, the Borrower shall not enter into, or instruct the Trustee to enter into, any agreement, including, without limitation, any investment or sale agreement involving the sale of future interest income or a forward delivery agreement or a forward purchase contract or a forward purchase supply contract, which provides for an upfront payment to the Borrower, in connection with the investment of any of the funds or accounts established under the Indenture and held by the Trustee.

Against Encumbrances

The Authority shall not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Revenues and other assets pledged or assigned under the Indenture while any of the Bonds are Outstanding, except the pledge and assignment created by the Indenture. Subject to this limitation, the Authority expressly reserves the right to enter into one or more other indentures for any of its corporate purposes, including other programs under the Act, and reserves the right to issue other obligations for such purposes.

Accounting Records and Financial Statements

The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with the Trustee's accounting practices for books of record and account relating to similar trust accounts, in which complete and accurate entries shall be made of all transactions relating to the proceeds of Bonds, the Revenues, the Loan Agreement and all funds and accounts established pursuant to the Indenture. Such books of record and account shall be available for inspection by the Authority, the Office and any Owner, or his agent or representative duly authorized in writing, upon reasonable notice, at reasonable hours and under reasonable circumstances.

The Trustee shall file and furnish to the Authority (upon request of the Authority), the Borrower and the Office on or before the 15th day of each month, a complete financial statement (which need not be audited and may be in the form of its customary account statements) covering receipts, disbursements, allocation and application of Revenues and any other moneys (including proceeds of Bonds) in any of the funds and accounts established pursuant to the Indenture for the preceding month.

Tax Covenants

The Authority covenants to and for the benefit of the purchasers and owners of the Bonds from time to time outstanding that so long as any of the Bonds remain outstanding, it will not (i) knowingly use or permit the use of moneys on deposit in any fund or account in connection with the Bonds, whether or not such moneys were derived from the proceeds of the sale of the Bonds or from any other sources, (ii) direct the Trustee to invest any funds held by it under the Indenture, or (iii) take any other action or approve any other action, that directly or indirectly would cause any Bond to be an "arbitrage bond" within the meaning of Section 148 of the Code, a "hedge bond" within the meaning of Section 149 of the Code, or "federally guaranteed" within the meaning of Section 149(b) of the Code; and that it will observe and not violate the requirements of Section 148 of the Code. Without limiting the generality of the foregoing, the Authority covenants that not more than fifty percent (50%) of the proceeds of the Bonds will be invested in a guaranteed investment contract with a term of four (4) years or more, or in another form of nonpurpose investment (within the meaning of Section 148(f)(6)(A) of the Code) having a substantially guaranteed yield for four (4) years or more.

In addition to the foregoing, the Authority covenants and agrees, for the benefit of the owners from time to time of the Bonds, that:

(i) it will not take any action, or omit to take any action or permit any action that is within its control to be taken or omitted, the result of which would cause or be likely to cause the interest payable with respect to any Bonds not to be excluded from gross income for federal income tax purposes;

(ii) it will comply with the requirements applicable to it contained in Section 103 and Part IV of Subchapter B of Chapter 1 of Subtitle A of the Code to the extent necessary to preserve the exclusion of interest on the Bonds from gross income for federal income tax purposes;

(iii) it will refrain from taking any action that would cause the Bonds, or any of them, not to be classified as "qualified bonds" under Section 141(e) of the Code; and

(iv) it shall complete and file Form 8038, Information Return for Tax-Exempt Private Activity Bond Issues, with respect to the Bonds, within the time period required by Section 149(e) of the Code and take any other steps necessary to comply with the information reporting requirement imposed by that section of the Code.

The Trustee covenants that it will make investments of money deposited with it in any Fund in connection with the Bonds only in accordance with the terms hereof and with written directions of the Borrower and that it will make all payments to the United States of America to the extent moneys are available therefor in Funds held in accordance with the terms of the Indenture.

The foregoing covenants impose continuing obligations on the Authority that will exist throughout the term of the issue to comply with the requirements of Section 103 and Part IV of Subchapter B of Chapter 1 of Subtitle A of the Code. Notwithstanding anything provided in the Indenture to the contrary, the covenants provided in the Indenture shall survive the payment of the Bonds and termination and defeasance of the Indenture and shall remain in full force and effect until all obligations and requirements with respect to the Rebate Amount have been satisfied and complied with.

Continuing Disclosure

The Trustee agrees to comply with and carry out all provisions of the Continuing Disclosure Agreement and the provision of the Loan Agreement relating to continuing disclosure as applicable to the Trustee.

Events of Default; Remedies on Default

"Events of Default" under the Indenture include: (a) default in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise; (b)default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable; (c) default by the Authority in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, if such default shall have continued for a period of sixty (60) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority and the Borrower by the Trustee, or to the Authority, the Borrower and the Trustee by the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding, except that if such default can be remedied but not within such sixty (60) day period, and if the Authority (or Borrower, as applicable) have taken all actions reasonably possible to remedy such default, it shall not be an Event of Default for so long as the Authority (or Borrower, as applicable) diligently proceed to remedy the default; or (d) a Loan Default Event. See "LOAN AGREEMENT—Events of Default".

During the continuance of an Event of Default, the Trustee may, and upon receipt of instructions from the Owners of a majority in aggregate principal amount of the Bonds then Outstanding or the Office, shall, upon notice in writing to the Authority, the Office and the Borrower, declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding; provided, however, that no such declaration may be made if the Contract of Insurance is in effect and the Office is not in default thereunder unless (i) the Trustee is required to make such declaration pursuant to the Indenture or (ii) the Office consents to such acceleration and agrees to pay an amount equal to the full principal amount Outstanding and interest thereon at the stated interest rates to the date of acceleration.

Any such declaration, however, is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Authority, the Office or the Borrower shall deposit with the Trustee a sum sufficient to pay all the principal or Redemption Price of and installments of interest on the Bonds payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Bonds, and the reasonable fees, charges and expenses of the Trustee, and any and all other defaults actually known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Trustee may, if such declaration was made by the Trustee without instruction from the Owners, and the Trustee shall, upon receipt of written notice by the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding, which written notice shall also be delivered to the Authority, the Office and the Borrower, on behalf of the Owners of all of the Bonds, rescind and annul such declaration and its consequences and waive such default; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon. Notwithstanding the foregoing, the Trustee shall waive any Event of Default which is caused solely by a default under the Regulatory Agreement if the Office waives such default in writing.

Upon the occurrence and continuance of an Event of Default, the Trustee shall proceed to take such steps as are necessary, in the reasonable judgment of the Trustee, to collect upon the insurance required by the Insurance Law. If the Office and the Treasurer of the State have notified the Trustee in writing that they elect to pay such insurance by means of debentures of the Office's Health Facility Construction Loan Insurance Fund, the Trustee shall as soon as practicable provide notice to each Owner of the exchange of such debentures for the Bonds then Outstanding in the same manner as for notice of redemption, and shall deliver to each Owner, as soon as practicable after surrender of such Owner's Bonds, debentures received from the Office in a principal amount equal to the principal amount of such Bonds plus accrued interest thereon and having maturities the same as such Bonds, bearing interest at such rate or rates equal to the rates on the respective Bonds.

In addition, the Trustee in its discretion may, and upon written request of the Office or the Owners of not less than 25% in aggregate principal amount of the Bonds then Outstanding and the written consent of the Office, and upon being indemnified to its satisfaction therefor shall, with the written consent of the Office, proceed to protect or enforce its rights or the rights of such Owners under the Indenture, the Loan Agreement, the Regulatory Agreement, the Contract of Insurance, the Deed of Trust, the Act or any other law. No Owner of any Bond has the right to institute any proceeding unless (I) such Owner shall have given written notice to the Trustee of the occurrence of an Event of Default, (2) the Owners of not less than 25% in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Trustee to institute such proceedings in its own name, (3) such Owner or Owners shall have tendered to the Trustee reasonable indemnity against the expenses to be incurred in compliance with such request, (4) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after receipt of such written notice and tender of indemnity; and (5) except as otherwise permitted under the Indenture, the Office has consented in writing.

Application of Revenues and Other Funds After Default

If an Event of Default shall occur and be continuing, all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture shall be applied by the Trustee as follows and in the following order:

(a) To the payment of the principal or Redemption Price of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture, as follows:

(i) Unless the principal of all of the Bonds shall have become or have been declared due and payable,

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference;

Second: To the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, with interest on the overdue principal at the rate borne by the respective Bonds, and, if the amount available shall not be sufficient to pay in full all the Bonds due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date to the persons entitled thereto, without any discrimination or preference.

(ii) If the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal or Redemption Price and interest then due and unpaid upon the Bonds, with interest on the overdue principal at the rate borne by the respective Bonds, and, if the amount available shall not be sufficient to pay in full the whole amount so due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest or Redemption Price, or of interest over principal or Redemption Price, or of Redemption Price over principal or interest, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, according to the amounts due respectively for principal, Redemption Price, and interest, to the persons entitled thereto without any discrimination or preference;

(b) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the Bonds hereunder and payment of reasonable fees, charges and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred with the consent of the Office in and about the performance of its powers and duties under this Indenture;

(c) To the Office to the extent necessary to repay insurance advances (including interest thereon calculated in accordance with the Regulatory Agreement) made by the Office as such amounts are certified to the Trustee.

Limitations on Foreclosure

Notwithstanding anything in the Indenture, the Deed of Trust, the Loan Agreement or any document to the contrary, the Trustee shall not be required to initiate foreclosure proceedings with respect to the Project, and shall not otherwise be required to acquire possession of, or take other action with respect to the Project which could cause it to be considered an "owner" or "operator" within the meaning of the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended from time to time, or any other law dealing with environmental matters or hazardous substances, unless the Trustee has sufficient comfort, based on previous determinations by experts on which the Trustee may rely, including an environmental report (any expense of a new report shall be paid from by the Borrower if moneys are available or shall be paid by the Owner or Owners), that: (i) the Project is in compliance with all environmental laws, rules or regulations or, if the Project is not in compliance, that it would nevertheless be in the best economic interest of the Trustee and the Owner or Owners to take such actions as are necessary for the Project to comply therewith; and (ii) there are no circumstances present at the Project relating to the use, management or disposal of any hazardous substances, hazardous materials, hazardous wastes, or petroleum-based materials for which investigation, testing, monitoring, contaminant clean up or remedial action could be required under any environmental laws or that, if any such materials are present for which such action could be required, that it would nevertheless be in the best economic interest of the Trustee and the Owner or Owners to take such actions with respect to the Project; and (iii) if the Trustee has determined that it would be in the best economic interest of the Trustee and the Owner or Owners, the Trustee must be satisfied that it will suffer no unreimbursed liabilities, expenses and costs from available funds in the Trustee's possession and control or from funds made available to the Trustee from the Owner or Owners; and (iv) if the Trustee has determined that it would be in the best economic interest of the Trustee and the Owner or Owners to take any such action and its aforementioned liabilities, expenses and costs will be adequately reimbursed the Trustee has so notified the Owner or Owners and has not received, within 30 days of such notification, instructions from the Owner or Owners of a majority of the Bonds Outstanding directing it not to take such action.

If the foregoing conditions are not satisfied and the Trustee is not willing to waive such conditions and initiate foreclosure proceedings, then the Trustee shall take such actions as are reasonably necessary or appropriate in order to facilitate the appointment of a co-trustee, being a person or entity designated by the Owner or Owners and to assign to such person or entity (subject, however, to the trusts created pursuant to the Indenture) the beneficial interest under the Deed of Trust which secures the obligations under the Loan Agreement for the limited purpose of conducting a foreclosure of such Deed of Trust and receiving and holding any title to real estate obtained as a result of such foreclosure.

Notwithstanding anything in the Indenture, the Deed of Trust, the Loan Agreement or any document to the contrary, only assets under by the Trustee under the Indenture or funds provided by the Owner or Owners may be used to remedy an environmental contamination and the Trustee will not have personal liability for clean-up costs, unless the environmental contamination is a result of negligent acts of the Trustee in its fiduciary capacity.

So long as the Contract of Insurance is in effect and the Office is not in default thereunder, the Office may foreclose on the Deed of Trust pursuant to the terms of the Regulatory Agreement.

Amendment of Indenture

The Authority and the Trustee may, by supplemental indenture, without the consent of any Owners but with the written consent of the Borrower and the Office, amend the Indenture only for certain purposes specified in the Indenture, including (1) to add to the covenants and agreements of the Authority, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power reserved to or conferred upon the Authority; (2) to make provisions to cure any ambiguity, inconsistency or omission, or to cure or correct any defective provision, contained in the Indenture or in regard to matters or questions arising under the Indenture, not inconsistent with the Indenture; (3) to make additions, deletions or modifications as may be necessary to assure compliance with Section 145 or 148 of the Code, or otherwise to ensure the exclusion from gross income under federal tax law of interest on the Bonds; (4) to modify, amend or supplement the Indenture to permit qualification under the Trust Indenture Act of 1939, as amended; or (5) modify, amend or supplement the provisions relating to the giving of notice to comply with the Securities and Exchange Commission guidelines. With the consent of the Borrower, the Office and the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding, a supplemental indenture may amend the Indenture in any manner, provided that no such supplemental indenture shall (1) extend the fixed maturity of any Bond, reduce the amount of principal thereof, reduce the rate of interest thereon, extend the time of payment of interest thereon, extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment, or reduce any premium payable upon the redemption thereof, without the consent of the Owner of each Bond so affected, or (2) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required for such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture or deprive the Owners of the Bonds of the lien created by the Indenture upon the Revenues and other assets (except as expressly provided in the Indenture and the Loan Agreement), without the consent of the Owners of all the Bonds then Outstanding.

Defeasance

Bonds may be paid by the Authority or the Trustee on behalf of the Authority in any of the following ways:

1. by paying or causing to be paid the principal or Redemption Price of and interest on Bonds Outstanding, as and when the same become due and payable;

2. by depositing with the Trustee in trust, at or before maturity, money or securities in the necessary amount (as provided in the Indenture) to pay or redeem all Bonds then Outstanding; or

3. by delivering to the Trustee for cancellation by it, all Bonds then Outstanding.

If the Authority shall pay all Outstanding Bonds and shall also pay all other sums payable under the Indenture by the Authority, then at the election of the Authority, the Indenture and the pledge of the Revenues and other assets and all covenants, agreements and other obligations of the Authority under the Indenture shall cease, terminate, become void and be completely discharged and satisfied except that thereafter, Owners shall be entitled to payment by the Authority, and the Authority shall remain liable therefor, but only out of such money or securities deposited with the Trustee.

DEED OF TRUST

The obligations of the Borrower pursuant to the Loan Agreement and the Regulatory Agreement are secured by the lien of the Deed of Trust upon the Facilities. The Deed of Trust shall also constitute a security agreement and the Borrower pledges and grants to the Beneficiary a security interest in and to all of the Property not constituting real property under the laws of the State of California. With the consent of the Office, the Deed of Trust may be amended or terminated at any time, without the necessity of obtaining the consent of the Trustee, the Authority or the holders of the Bonds or of Parity Debt.

For the purpose of protecting and preserving the security of this Deed of Trust, the Borrower promises and agrees to do the following:

(a.) to take all action necessary to keep the Property at all times entirely free of dry rot, fungus, termites, beetles and all other wood-boring, wood-eating, harmful or destructive insects, and in all respects properly to care for and keep all of the Property, including all such buildings, structures and other improvements, in good condition and repair; (ii.) not to remove, demolish or substantially alter (except such alterations as may be required by laws, ordinances or regulations or permitted pursuant to the Loan Agreement) any of the Facilities; provided, however, that the Borrower may make such proper replacements, repairs, renewals, removals and alterations as it shall in good faith reasonably determine are necessary or advisable to maintain or enhance the efficiency and value of the security created hereby; (iii.) to complete promptly and in good and businesslike manner any building or other improvements which may be constructed on the Land, to promptly restore in like manner (to the extent permitted by law) any Facilities which may be damaged or destroyed thereon, and to pay when due all claims for labor performed and materials furnished therefor, provided that the Borrower shall not be required to pay any such claim if it shall in good faith contest the validity thereof and, if so contested, shall provide for the payment thereof in a manner reasonably satisfactory to the Trustee; (iv.) to comply with all laws, ordinances, regulations, conditions and restrictions now or hereafter affecting the Property or any part thereof or requiring any alterations or improvements to be made thereon; (v.) not to commit or permit any waste, and not to permit any deterioration, of the Property; and (vi.) not to commit, suffer or permit any act to be done in or upon the Property in violation of any law or ordinance if such act might have consequences that would materially and adversely affect the financial condition, assets, properties or operation of the Borrower;

(b) to provide and maintain hazard insurance as required by the Regulatory Agreement, and to deliver duplicate originals or certified copies of the policies of said insurance to the Trustee upon its request; it being mutually agreed that the proceeds of any claim under such insurance in excess of one and one-half percent (1-1/2%) of the Borrower's Adjusted Annual Operating Revenues shall be deposited with the Trustee pursuant to the Indenture and are assigned to Trustee to be held and disbursed by said Trustee as provided in the Regulatory Agreement, and that any unexpired insurance and all returnable insurance premiums shall inure to the benefit of, and pass to, the purchaser of the property covered thereby at any Trustee's sale held under the Deed of Trust;

(c.) to appear in and defend any action or proceeding affecting or purporting to affect the security of the Deed of Trust, any additional or other security for any of the obligations secured thereby, or the interest, rights, powers, or duties of the Deed of Trust Trustee or the Beneficiary, it being agreed, however, that in the case of an action or proceeding against the

Deed of Trust Trustee or the Beneficiary said Deed of Trust Trustee or Beneficiary, at its option, may appear in and defend any such action or proceeding and, in addition, it being agreed that the Trustee or Beneficiary may commence any action or proceeding deemed necessary by it to perfect, maintain or protect such interest, rights, powers or duties, all in such manner and to such extent as it may determine in its sole discretion to be appropriate, and the Deed of Trust Trustee or Beneficiary is authorized to pay, purchase or compromise on behalf of the Borrower any encumbrance or claim which in its judgment appears or purports to affect the security hereof or to be superior hereto; to pay all costs and expenses, including costs of evidence of title and attorney's fees in a reasonable sum, in any above described action or proceedings in which the Beneficiary or the Trustee may appear;

(d) (i.) to pay, and submit to the Beneficiary, at least five (5) days before default or delinquency, a receipt or other evidence of payment, or certified copy thereof, evidencing payment of all taxes and assessments affecting the Property, and any accrued interest, cost or penalty thereon, provided that the Borrower shall not be required to pay any such tax or assessment if it shall in good faith contest the validity thereof and, if so contested, shall provide for the payment thereof in a manner reasonably satisfactory to the Trustee; (ii.) to pay when due all encumbrances (including any debt secured by deed of trust), ground rents, liens or charges, with interest, on the Property or any part thereof which appear to be prior or superior hereto, and to pay immediately and in full all such encumbrances, rents, liens or charges, if any, which may now be due or payable; provided that the Borrower shall not be required to pay any such encumbrances, rent, lien or charge if it shall in good faith contest the validity thereof and, if so contested, shall provide for the payment thereof in manner satisfactory to the Beneficiary; and (iii.) to pay when due all costs, fees and expenses of these trusts, including costs of evidence of title and the Deed of Trust Trustee's fees in connection with sale, whether completed or not, which amounts shall become due upon delivery to the Deed of Trust Trustee of declaration of default and demand for sale, as hereinafter provided; and

(e) to pay immediately and without demand all reasonable and necessary sums expended or expense incurred by the Deed of Trust Trustee or by the Beneficiary to enforce the terms of the Trust, including attorneys' fees, under any of the terms of the Deed of Trust, with interest from date of expenditure at the rate of ten percent (10%) per annum.

To the extent permitted under the Regulatory Agreement, certain property may be removed from the lien and security interest of the Deed of Trust upon written request by the Office.

Upon the failure of the Borrower to perform its obligations as required under the Deed of Trust, the Trustee or the Authority and the Office, as beneficiaries, may elect to do any or all of the following: (1) make any such payment or do any such act in such manner and to the extent necessary to protect the security of the Deed of Trust; (2) pay, purchase, contest or compromise any claim, debt, lien, charge or encumbrance which may affect or appear to affect the security of the Deed of Trust; (3) take possession of, and manage, operate or lease, the Property; and (4) declare all sums secured by the Deed of Trust to be immediately due and payable and sell the Facilities to satisfy the lien of the Deed of Trust. If the Trustee elects to foreclose and sell, there are certain applicable statutory time periods which must expire before such proceedings will be effective. Notwithstanding the foregoing, so long as the Office is obligated under and not in default under the Contract of Insurance, all rights and remedies under each Deed of Trust may be exercised solely by the Office.

The Regulatory Agreement confers certain powers and rights upon the Office which may limit the discretion of the Deed Trustee under the Deed of Trust. Before the benefits of the insurance are to be paid, the Office may require such trustee to (1) foreclose on the Deed of Trust and convey title to the Facilities to the Office; or (2) assign all security interests of the Bondholders under the Deed of Trust to the Office. In addition, the Office may share in the lien of the Deed of Trust with the interests of the Bondholders on a pro rata basis for advances made from the Insurance Fund for payment on the Bonds. See "REGULATORY AGREEMENT" herein.

CONTRACT OF INSURANCE

The Contract of Insurance is an agreement among the Office, the Borrower and the Authority whereby the Borrower and the Authority agree to abide by the terms of the principal documents, and the Office agrees that the Bonds are eligible for insurance and are thereby insured under the Insurance Law. The Contract of Insurance provides that the insurance may be terminated only (1) upon payment in full of the insurance, (2) upon payment in full of the principal and interest with respect to the Bonds and other amounts owing to the Owners and the Trustee under the Indenture, (3) upon joint written request of the Borrower, the Authority, and all the Owners, or (4) if the Deed of Trust is judicially foreclosed, or the Trustee, the Authority or the Owners nonjudicially foreclose or otherwise acquire such property after a Loan Default Event and the Authority and the Trustee do not execute and deliver a grant deed, trustee deed or quitclaim deed for such property to the Office within sixty days of foreclosure or other acquisition, or if the Trustee does not surrender the Bonds to the Office within sixty days of surrender of such Bonds to the Trustee to be exchanged for debentures, provided that such conveyance or surrender is not restrained or enjoined by any court or governmental body or agency.

REGULATORY AGREEMENT

The Regulatory Agreement is an agreement among the Office, the Authority and the Borrower to establish the requirements of the Office with respect to certain details of the financing transaction. The Regulatory Agreement also sets out certain business covenants of the Borrower, including maintenance, operation and management of the Facilities and limitations on encumbrances, assignment and transfer of any part of the Facilities and other matters. The Regulatory Agreement also provides for the rights and obligations of the parties in the event of a default and provides for the manner in which the benefits of the insurance are to be paid. Specifically, the Office shall notify, the State Treasurer, upon surrender to the Office by the Trustee of (1) title or the security interest created by the Deed of Trust, (2) assignment of all claims of the Authority and the Trustee against the Borrower or others, arising out of the sale of the Bonds or foreclosure proceedings, and (3) each Bond which has been surrendered to the Trustee, and the Office shall have the option, at any time and from time to time thereafter to cause debt service payments with respect to the Bonds to be made from any money available therefor including the Insurance Fund, or to request the State Treasurer to issue to the Trustee debentures having the same maturities and interest rates as the surrendered Bonds, in a total face amount equal to all amounts due under the Indenture. The Regulatory Agreement provides *that the Office shall share in the lien of the Deed of Trust for, and to the extent of, insurance payments.*

Rates and Charges; Debt Coverage; Current Ratio; Days Cash On Hand

A. The Borrower shall operate the Facilities as revenue producing health facilities. The Borrower shall fix, charge and collect, or cause to be fixed, charged and collected, subject to applicable requirements or restrictions imposed by law, such rates, fees and charges which, together with all other receipts and revenues of the Borrower and any other funds available therefor, to achieve Net Income Available for Debt Service that is projected to be sufficient in each of the Fiscal Years beginning August 1, 2010 equal to at least 1.25 times Maximum Aggregate Annual Debt Service.

B. The Borrower shall maintain, as of the end of each Fiscal Year (commencing with the Fiscal Year beginning August 1, 2010), a current ratio (a ratio of current assets plus unrestricted investments to current liabilities, as determined in accordance with generally accepted accounting principles and as shown on the Borrower's audited financial statements for such Fiscal Year) of at least 1.5:1.0.

C. The Borrower shall maintain as of the end of each Fiscal Year (commencing with the Fiscal Year beginning August 1, 2010) not less than 200 Days Cash on Hand, as shown on the Borrower's audited financial statements for each such Fiscal Year. For purposes of this requirement, "Days Cash on Hand" shall mean, for any Fiscal Year, the quotient obtained by dividing (1) the Borrower's unrestricted and board designated cash and cash equivalents excluding proceeds of short-term indebtedness, plus the Borrower's unrestricted and board-restricted investments, all as determined in accordance with generally accepted accounting principles, as of the end of such Fiscal Year by (2) the quotient obtained by dividing (a) the Borrower's operating expenses (excluding depreciation, amortization, allowance for bad debts, and any other noncash expenses) for such Fiscal Year by (b) the number of days in such Fiscal Year.

D. Within one hundred twenty (120) days after the end of each Fiscal Year (commencing with first Fiscal Year beginning August 1, 2010), the Borrower shall compute (1) the Net Income Available for Debt Service and Aggregate Annual Debt Service or Maximum Aggregate Annual Debt Service, as appropriate, (2) the current ratio and (3) the Days Cash on Hand for such Fiscal Year and the Borrower shall promptly furnish to the Authority, if the Authority so requests, the Trustee and the Office a Statement setting forth the results of such computation.

The Borrower further covenants and agrees that if, at the end of any Fiscal Year, (i) Net Income Available for Debt Service shall have been less than the amount specified in paragraph A for such Fiscal Year, (ii) the current ratio shall have been less than that required by paragraph B for such Fiscal Year, or (iii) the Days Cash on Hand shall have been less than that required by paragraph C for such Fiscal Year, they will promptly employ a Management Consultant to make recommendations as to a revision of the rates, fees and charges of the Borrower or the methods of operation of the Borrower which will result in producing (x) Net Income Available for Debt Service at least equal to the amount required by paragraph A for such Fiscal Year, (y) a current ratio as required by paragraph B in the current Fiscal Year and (z) Days Cash on Hand as required by paragraph C for such Fiscal Year; provided, however, the Borrower need not so employ a Management Consultant if the Office consents, in writing, to a waiver of said covenant to employ a Management Consultant. Copies of the recommendations of the Management Consultant shall be filed with the Authority, if the Authority so requests, the Trustee and the Office. The Borrower shall, to the extent feasible, promptly upon their receipt of such recommendations, subject to applicable requirements or restrictions imposed by law, revise its rates, fees and charges or its methods of operation or collections and shall take such other action as shall be in conformity with such recommendations; provided, however, the Borrower need not make such revisions or take such actions in conformity with such recommendations if (1) the Board makes a good faith determination that such recommendations, in whole or in part, are not in the best interests of the Borrower, and (2) the Office gives its written consent to the effect that the Borrower need not comply, in whole or in part, with such recommendations. In the event that the Borrower fail to comply with the recommendations of the Management Consultant, the Office may replace existing management with new management, which shall be chosen unilaterally by the Office.

If the Borrower complies in all material respects with the reasonable recommendations of the Management Consultant in respect to said rates, fees, charges and methods of operation or collection, the Borrower will be deemed to have complied with the covenants contained in this Section for such Fiscal Year, notwithstanding that Net Income Available for Debt Service, the current ratio or the Days Cash on Hand shall be less than the amount required under paragraphs A, B or C as above provided; provided, that (1) this sentence shall not be construed as in any way excusing the Borrower from taking any action or performing any duty required under the Regulatory Agreement or be construed as constituting a waiver of any other event of default under the Regulatory Agreement and (2) Net Income Available for Debt Service shall be at least equal to 1.0 times Aggregate Debt Service for such Fiscal Year.

E. Notwithstanding the foregoing, the Borrower may permit the rendering of service at, or the use of, its Facilities without charge or at reduced charges, at the discretion of its Board, to the extent necessary for maintaining its tax-exempt status or to establish or maintain its eligibility for grants, loans, subsidies or payments from the United States of America, any instrumentality thereof, or the State or any political subdivision or instrumentality thereof, or in compliance with any recommendation for free services that may be made by the Management Consultant.

Negative Covenants

The Borrower shall not, without the prior written consent of the Office:

A. Remodel, reconstruct, or demolish any part of the Facilities (except in the ordinary course of business) or subtract from any of its real property except for the maintenance described in the regulations of the relevant State licensing agencies, which may be accomplished without limitation.

B. Pay any compensation or make any distribution of income or other assets to any of its officers or directors other than as compensation to such persons in their capacities as officers, directors, employees, contractors or suppliers or the reimbursement of ordinary out-of-pocket expenses.

C. Amend its articles of incorporation or bylaws in any material respect.

D. Except for affiliations or contracts with public agencies, health maintenance organizations and other health care plans and providers entered into by it in its ordinary course of business, establish, maintain, or affiliate with a Person in conjunction with which it will carry on its activities; transfer control of any of the Facilities to any other Person; or assume, either directly, indirectly or through intermediaries, the management or control of any other Person, unless in each such case (i) the Contract of Insurance remains in full force and effect after such act, and (ii) no event of default under the Regulatory Agreement has occurred and is continuing or will, as a result of such act, occur.

E. Cease to operate the Facilities such that the Facilities no longer qualify as a "health facility" as defined in Insurance Law Section 129010, except to the extent permitted by the Insurance Law.

F. Amend any architectural or construction contract for the Project except for customary change orders for which moneys are available in the Project Fund.

Limitation on Encumbrances

The Borrower shall not create, assume or suffer to exist and shall immediately satisfy or release any mortgage, deed of trust, pledge, security interest, encumbrance, lien, attachment or charge of any kind (including the charge upon property purchased under conditional sales or other title retention agreements) upon the Facilities or the Gross Revenues; provided, however, that notwithstanding the foregoing provision, the Corporation may create, assume or suffer to exist Permitted Encumbrances.

Limitation on Indebtedness

A. The Borrower shall not incur any indebtedness or financial obligations, including without limitation, by borrowing money, by assuming or guaranteeing the obligations of others, and by entering into installment purchase contracts or leases required to be capitalized in accordance with generally accepted accounting principles, except the Borrower may incur the following:

1. Obligations and liabilities under the Regulatory Agreement, the Loan Agreement, or the Indenture, including any supplements or amendments thereto or hereto in connection with the issuance of any additional series of Bonds;

2. Contractual liabilities (other than liabilities for borrowed money or liabilities which would otherwise be considered indebtedness under generally accepted accounting principles) for which moneys are available in the Project Fund under the Indenture or otherwise;

3. Short-Term Indebtedness with the prior written consent of the Office and provided that no amount of Short-Term Indebtedness shall be outstanding for a period of thirty (30) consecutive days during each Fiscal Year. The aggregate amount incurred by the Borrower as described under this subsection shall not exceed at the time of incurrence ten percent (10%) of the Borrower's Adjusted Annual Operating Revenues for the most recent Fiscal Year for which audited financial statements are available;

4. Liabilities for contributions to self-insurance programs;

5. Long-Term Indebtedness (which may be Parity Debt) incurred for the purpose of refinancing outstanding Long-Term Indebtedness provided that

a. the Office has consented in writing to the incurring of such indebtedness, and

b. the issuance of such Long-Term Indebtedness does not increase Maximum Aggregate Annual Debt Service by more than ten percent (10%), as certified by a written report of an Accountant which shall be filed with the Trustee and the Office;

6. Long-Term Indebtedness (which may be Parity Debt), provided that

a. the Office has consented in writing to the incurring of such indebtedness, and

b. (1) Net Income Available for Debt Service, as certified by a written report of an Accountant which shall be filed with the Authority, if the Authority so requests, the Trustee and the Office for the most recent Fiscal Year for which audited financial statements are available immediately preceding the date of incurrence of such Long-Term Indebtedness was at least equal to 1.25 times Maximum Aggregate Annual Debt Service on all outstanding Long-Term Indebtedness and the Long-Term Indebtedness proposed to be incurred, or

(2) (a) Net Income Available for Debt Service, as certified by a written report of an Accountant which shall be filed with the Trustee and the Office, for the most recent Fiscal Year for which audited financial statements are available immediately preceding the date of incurrence of such Long-Term Indebtedness was at least equal to 1.25 times Maximum Aggregate Annual Debt Service on all Long-Term Indebtedness then outstanding, and

(b) Net Income Available for Debt Service, as shown in a written feasibility report prepared by a Management Consultant and filed with the Trustee and the Office, for each of the first two Fiscal Years following the incurrence of such Long-Term Indebtedness (or, if such Long-Term Indebtedness is incurred to finance additional facilities, in each of the first three Fiscal Years following the Fiscal Year when it is proposed that such Facilities will be completed and placed in service) is forecasted to be at least 1.25 times Maximum Aggregate Annual Debt Service on all Long-Term Indebtedness proposed to be outstanding at the end of each such Fiscal Year;

7. Long-Term Indebtedness (which may be Parity Debt), incurred to complete the Project or any other project if the Board certifies that the Corporation cannot complete such project unless such Long-Term Indebtedness is incurred, provided that

a. the Office has consented in writing to the incurring of such indebtedness, and

b. in the case of a project other than the Project, the aggregate principal amount of such indebtedness does not exceed ten percent (10%) of the principal amount of Long-Term Indebtedness incurred to finance such project;

8. Long-Term Indebtedness (excluding Parity Debt) provided that

a. the Office has consented in writing to the incurring of such indebtedness, and

b. the aggregate amount incurred by the Corporation under the Regulatory Agreement and outstanding shall not exceed at the time of incurrence ten percent (10%) of the Corporation's Adjusted Annual Operating Revenues for the most recent Fiscal Year for which audited financial statements are available;

9. Liabilities under capitalized lease agreements for the lease of, or indebtedness for money borrowed or liabilities under instruments evidencing deferred payment arrangements for the purchase of, equipment, tangible personal property or real property; provided that the aggregate amount incurred by the Corporation under this Subsection, Subsection 3 and Subsection 8 and outstanding shall not exceed at the time of incurrence ten percent (10%) of the Corporation's Adjusted Annual Operating Revenues for the latest Fiscal Year for which audited financial statements are available;

10. Non-recourse Indebtedness, provided that the Office has approved in writing the incurrence of such indebtedness and such indebtedness does not encumber the Facilities;

11. Repayment obligations under reimbursement or similar agreements with banks or insurance companies relating to letters or lines of credit or other credit facilities used to secure Long-Term Indebtedness;

12. Indebtedness, not for borrowed money, incurred in the ordinary course of business; and

13. Any indebtedness or obligations of the Borrower consented to in writing by the Office.

Limitations on Disposition of Property

The Borrower shall not dispose of any cash or cash equivalents unless certain conditions are satisfied as specified in the Regulatory Agreement. The Borrower shall not sell, lease, sublease, assign, transfer, encumber or otherwise dispose of all or any part or parts of the real property described in Exhibit A to the Regulatory Agreement, including the buildings and structures thereon and fixtures and improvements of such real property, except for Permitted Encumbrances, without the prior written consent of the Office. The Borrower shall not sell, lease, sublease, assign, transfer, encumber or otherwise dispose of all or any part or parts of the Facilities, even if not otherwise prohibited in the Regulatory Agreement, other than in the "ordinary course of business," unless the Office gives its prior written consent to such disposition. "Ordinary course of business" is defined during the term of the Regulatory Agreement by the Office in the exercise of its sound and reasonable discretion, by the Office giving written notice thereof to the Borrower, which determination will become effective on receipt of such notice by the Borrower.

Except as provided in the Regulatory Agreement concerning a disposition of substantially all of the Borrower's assets, in no event shall the Borrower dispose of any part or parts of its Facilities in any Fiscal Year aggregating in excess of two and one-half percent (2-1/2%) of the

Borrower's net property, plant and equipment (as shown on the Borrower's most recent audited financial statements), unless the Office gives its prior written consent to such disposition.

Limitation on Acquisition of Property, Plant and Equipment

The Borrower shall not acquire additional property, plant and equipment (except (1) in the ordinary course of business, (2) with the proceeds of indebtedness permitted by the Regulatory Agreement, or (3) as part of a merger or consolidation permitted by the Regulatory Agreement) by gift (other than gifts of real property if either (i) their use is residential or (ii) it is subject of a Phase I report indicating no contaminants or gifts of cash or personal property), purchase, construction, merger or consolidation, unless the Office gives its prior written consent to such acquisition.

Parity Debt

The Borrower may incur Parity Debt, subject, however to compliance with the Regulatory Agreement and the following conditions:

1. The Trustee shall act as trustee for the Parity Debt, if a trustee is appointed to act with respect to such debt;

2. The agreement under which Parity Debt is issued shall require that:

   a. A Loan Default Event shall constitute an event of default under such agreement and the Regulatory Agreement;

   b. Rights and obligations of the holders of Parity Debt shall be substantially the same as the rights and obligations of the Holders of Bonds under the Indenture, except that if the Parity Debt is not covered under the Contract of Insurance, the holders of Parity Debt shall have no rights under the Contract of Insurance for payments made with respect thereto; and

   c. Remedies upon an event of default shall be substantially the same as the remedies provided in the Indenture, the Regulatory Agreement and the Loan Agreement, and, prior to exercising any such remedies, the holders of such Parity Debt (or a trustee representing their interest) shall be required to cooperate with the Trustee to the end that the interests of such holders and the Bondowners shall be equally protected;

3. Any collateral given or to be given to secure Parity Debt shall also secure the Bonds on a pari passe basis; provided that the Bond Reserve Account shall only secure the Bonds and the Borrower may but need not establish similar reserve accounts for debt service of Parity Debt;

4. The Parity Debt shall be prepayable in accordance with terms substantially in the form of and under the conditions prescribed in the Indenture; and

5. The Parity Debt shall be insured by the Office under the Insurance Law, or if the Parity Debt can be issued as such without being insured under the Insurance Law, with the consent of the Office.

In this regard, the Office acknowledges and confirms that the Borrower's obligations under the Loan Agreement with respect to the Bonds are each Parity Debt with respect to the other and that the Borrower's incurrence of the same satisfy all applicable provisions of the Regulatory Agreement relative to Parity Debt.

Compliance with Law

The Borrower shall operate and maintain the Facilities in material accordance with all applicable governmental laws, ordinances, approvals, rules, regulations and requirements including, without limitation, such zoning, sanitary, pollution and safety ordinances and laws, including the Insurance Law, and such rules and regulations thereunder as may be binding upon the Borrower. The Borrower shall make all disclosures required by the Securities and Exchange Commission and shall indemnify the Office for any costs, fees, fines, or other penalties imposed on the Office which arise from, or are incurred from, the Borrower's negligent or other failure to disclose annual financial and operating information as required by the Securities and Exchange Commission.

Taxes, Assessments and Governmental Charges

The Borrower shall pay and discharge all taxes, assessments, governmental charges of any kind whatsoever, water rates, meter charges and other utility charges which may be or have been assessed or which may have become liens upon the Facilities, the Gross Revenues or the interests therein of the Trustee or of the Holders of the Bonds, and will make such payments or cause such payments to be made, respectively, in due time to prevent any delinquency thereon or any forfeiture or sale of the Facilities or any part thereof, an, upon request, shall furnish to the Trustee receipts for all such payments, or other evidences satisfactory to the Trustee; provided, however, that the Borrower shall not be required to pay any tax, assessment , rate or charge as herein provided as long as it shall in good faith contest the validity thereof, provided that the Borrower shall have set aside adequate reserves with respect thereto.

Insurance

A. *Maintain Insurance.* The Borrower shall keep the Facilities and their operations adequately insured at all times, and, shall carry and maintain, or cause to be carried and maintained, and will pay, or cause to be paid, in timely fashion the premiums for, at least the following coverages with the limits as stated. The following coverages and limits may be varied only with the prior written consent of the Office.

1. Property Insurance.

a. **Buildings and Structures**. All buildings and structures constituting part of the Facilities shall, at a minimum, be insured using a form at least as broad as the most recent revision of the Property Special Form coverage adopted by the Insurance Services Office (ISO), subject to a reasonable deductible per occurrence, and in an amount equal to at least the lesser of the full replacement value of the property insured, or the aggregate principal amount of the Outstanding Bonds and Parity Debt. The replacement value of the Facilities shall be determined from time to time at the request of the Borrower or the Trustee (but not less frequently than once in every twenty-four months) by an architect, contractor, appraiser or appraisal company selected by the Borrower and acceptable to the Office. The Office shall be a loss payee on all policies maintained pursuant to this subdivision. The policy form shall also include a Joint Loss Endorsement as respects Boiler & Machinery insurance.

b. **Business Personal Property**. All business personal property, including computers and electronic data processing equipment, at any location forming part of the Facilities shall be insured using a form at least as broad as the most recent revision of the

Property Special Form coverage adopted by the ISO, subject to a reasonable deductible per occurrence and in an amount equal to at least the lesser of the full replacement value of the property insured or the aggregate principal amount of the Outstanding Bonds and Parity Debt. The Office shall be a loss payee on all policies maintained pursuant to this subdivision.

c. **Earthquake**. All buildings, structures, and the contents thereof, shall be insured against damage resulting from earthquake and related perils in an amount equal to at least the lesser of the full replacement value of the Facilities or the aggregate principal amount of Outstanding Bonds and Parity Debt then outstanding, subject to reasonable deductibles. The Borrower shall acquire earthquake insurance unless the Office agrees in writing to waive earthquake insurance. The Office shall be a loss payee on all policies maintained pursuant to this subdivision.

d. **Flood**. All buildings, structures, and the contents thereof, shall be insured against damage resulting from flood and rising water in an amount equal to at least the lesser of the full replacement value of the Facilities or the aggregate principal amount of Outstanding Bonds and Parity Debt then outstanding, subject to reasonable deductibles. The Borrower shall acquire flood insurance unless the Office agrees in writing to waive flood insurance. The Office shall be a loss payee on all policies maintained pursuant to this subdivision.

2. Builders Risk. During the course of any substantial addition, extension, alteration, or improvement to the Facilities, the Borrower shall maintain or cause to be maintained builder's risk insurance in the amount of the full completed value of such construction work, subject to reasonable deductibles per occurrence, covering all risk of physical loss or damage with such exclusions as are acceptable to the Office. The Office shall be a loss payee on all policies maintained pursuant to this subsection.

3. Boiler and Machinery Insurance. The Borrower shall maintain boiler and machinery insurance providing coverage against loss of property and liability for damage to persons or property from explosion of, or accident to, boilers, tanks, pipes, pressure vessels, engines, wheels, electrical machinery, or apparatus connected therewith or operating thereby in an amount not less than $1,000,000, subject to deductibles not exceeding $10,000 per occurrence. The policy form shall also include Joint Loss Endorsement.

4. Commercial General Liability Insurance. The Borrower shall maintain Commercial General Liability Insurance for bodily injury and property damage in a form at least as broad as the most recent revision of the Commercial General Liability Policy adopted by the (ISO), including non-owned and hired automobile coverage, with limits no less than $1,000,000 per occurrence, and $3,000,000 annual aggregate.

5. Automobile Insurance. The Borrower shall maintain insurance for vehicles owned, non-owned or hired by the Borrower with at least a $1,000,000 per accident limit.

6. Professional Liability. The Borrower shall maintain professional liability insurance with per occurrence and aggregate limits equal to $10,000,000, subject to reasonable deductibles or self-insured retention, unless otherwise agreed to in writing by the Office.

7. Fidelity Bonds. The Borrower shall maintain Fidelity bonds or other insurance covering dishonesty, including computer fraud, covering all officers and employees of the

Borrower who collect or have custody of or access to revenues, receipts or income of the Borrower, with limits equal to $5,000,000, unless otherwise agreed to in writing by the Office.

8. Business Interruption. The Borrower shall maintain business interruption insurance covering actual losses to the Borrower of gross operating earnings which result directly from the necessary interruption of business caused by damage to or destruction of any real or personal property constituting part of the Facilities from risks covered by the insurance required above under subsection 1. Property Insurance, less charges and expenses which do not necessarily continue during such interruption of business, for such period of time as may be required, with exercise of due diligence and dispatch, to reconstruct, repair or replace such damages or destroyed property, with limits equal to at least Maximum Aggregate Annual Debt Service.

9. Extra Expense. The Borrower shall maintain extra expense insurance covering additional expenses for continuing operations or to resume normal business incurred by the Borrower which result directly from damage to or destruction of any real or personal property constituting part of the Facilities from the risks covered by the insurance required above under subsection 1. Property Insurance, with limits equal to at least Maximum Aggregate Annual Debt Service.

10. Directors and Officers. The Borrower shall maintain insurance to cover wrongful acts of the directors and officers, including entity coverage, to the extent available in a non-profit directors and officers policy form in an amount not less than $10,000,000, unless otherwise agreed to by the Office in writing.

B. *Risk Management Consultant.* The Borrower shall employ a Risk Management Consultant to review the insurance requirements of the Borrower from time to time (but not less frequently than once every twenty-four (24) months). If the Risk Management Consultant makes recommendations for the increase of any of the coverage required by subsection A of this section, the Borrower shall increase such coverage in accordance with such recommendations, subject to a good faith determination of their respective Boards that such recommendations, in whole or in part, are in the best interests of the Borrower. Notwithstanding anything in this section to the contrary, the Borrower shall have the right, without the giving rise to an event of default under the Regulatory Agreement solely on such account,

1. with the prior written consent of the Office, to maintain insurance coverage below that required by subsection A of this section, provided further that the Corporation shall furnish to the Trustee and the Office a Statement of the Risk Management Consultant or other evidence, satisfactory to the Office, that the insurance so provided affords the greatest amount of coverage available for the risk being insured against at rates which in the judgment of the Risk Management Consultant are reasonable in connection with reasonable and appropriate risk management, or

2. with the prior written consent of the Office, to adopt alternative risk management programs which the Board determines to be reasonable and which shall not have a material adverse impact on the Borrower's reimbursement from third party payers, including, without limitation, to self-insure in whole or in part, to participate in programs of captive insurance companies, to participate with other health care institutions in mutual or other cooperative insurance or other risk management programs, to participate in state or federal insurance programs, to take advantage of state or federal laws now or

hereafter in existence limiting medical and malpractice liability, or to establish or participate in other alternative risk management programs; all as may be approved in writing as reasonable and appropriate risk management by the Risk Management Consultant. A copy of any such approval shall be furnished to the Trustee and the Office.

Disposition of Insurance and Condemnation Proceeds

The proceeds of Property and Builders Risk insurance maintained by the Borrower pursuant to the Regulatory Agreement, the proceeds of any title insurance obtained pursuant to the Regulatory Agreement, and the proceeds of any condemnation awards with respect to the Facilities, shall be paid immediately upon receipt by the Corporation or other named insured parties to the Trustee, as assignee of the Authority, for deposit in the "Insurance and Condemnation Proceeds Fund" established and maintained by the Trustee under the Indenture. In the event the Borrower elects to repair or replace the property damaged, destroyed or taken, it shall furnish to the Trustee and the Office plans of the contemplated repair or replacement, accompanied by a Statement of an architect or other qualified expert satisfactory to the Office estimating the reasonable cost of such repair or replacement and a Statement of the Borrower stating that amounts in the Insurance and Condemnation Proceeds Fund, together with investment income reasonably expected to be received with respect thereto and any other funds available or reasonably expected to become available therefor (and which the Borrower shall agree to deposit in said fund when so available), shall be sufficient to repair or replace the property damaged, destroyed or taken in accordance with said plans. After deducting therefrom the reasonable charges and expenses of the Trustee in connection with the collection and disbursement of such moneys, moneys in the Insurance and Condemnation Proceeds Fund shall be disbursed by the Trustee for the purpose of repairing or replacing the property damaged, destroyed or taken in the manner and subject to the conditions set forth in the Indenture with respect to disbursements from the Project Fund to the extent the provisions thereof may reasonably be made applicable. In the event that the proceeds of any loss or damage to or condemnation of the Facilities shall be less than one and one-half percent (1-1/2%) of the Borrower's Adjusted Annual Operating Revenues (as shown on the Borrower's most recent audited financial statements), and so long as an event of default under the Regulatory Agreement has not occurred and is not then continuing, the Trustee shall pay over such proceeds to the Borrower without requiring any of the documents referred to in this subsection and without any formality whatsoever.

In the event the Borrower, with the consent of the Office, shall elect not to repair or replace the property damaged, destroyed or taken, as provided in subsection A of this section, the Trustee shall transfer all amounts in each Insurance and Condemnation Proceeds Fund on account of such damage, destruction or condemnation to the Special Redemption Account established and maintained under the same Indenture in order to prepay the Loan Repayments and redeem Bonds. Notwithstanding the foregoing, in the event that Parity Debt is outstanding at such time as the Borrower receives or are entitled to receive the proceeds of any insurance or condemnation award referred to in this section, the Trustee shall deposit such proceeds in part in the Insurance and Condemnation Proceeds Funds and in part in the equivalent fund established and maintained by the Trustee with respect to such Parity Debt as may be appropriate (and used for the retirement of such Parity Debt) in the same proportion which the aggregate principal amount of Outstanding Bonds then bears to the aggregate unpaid principal amount of such Parity Debt.

If all amounts in the Insurance and Condemnation Proceeds Fund and any equivalent redemption account for the retirement of Parity Debt exceed one and one-half percent (1-1/2%) of the Borrower's Adjusted Annual Operating Revenues (as shown on the Borrower's most recent audited financial statements) but are not sufficient to retire all Bonds and Parity Debt then outstanding, the Trustee shall not transfer said amounts to the Special Redemption Account unless the Borrower shall file with the Trustee a report of a Management Consultant showing that projected Net Income Available for Debt Service will be sufficient to pay Aggregate Debt Service for the three full Fiscal Years immediately following such transfer after giving effect to the retirement of such Bonds and Parity Debt. In the event such report of a Management Consultant shows that projected Net Income Available for Debt Service will not be sufficient to pay Aggregate Debt Service for the three full Fiscal Years immediately following such transfer after giving effect to the retirement of such Bonds and Parity Debt, the Borrower shall apply all amounts in the Insurance and Condemnation Proceeds Fund to the repair or replacement of the property damaged, destroyed or taken, as provided in subsection A of this section, unless the Borrower shall file a further report of a Management Consultant showing that even after making such repair and replacement, projected Net Income Available for Debt Service will not be sufficient to pay Aggregate Debt Service for the three Fiscal Years immediately following such repair and replacement, in which event the Trustee shall transfer all moneys in the Insurance and Condemnation Proceeds Fund to the Special Redemption Account and/or such other trust account for the retirement of Bonds and Parity Debt, as provided in the preceding paragraph.

Remedies Upon Default

The Regulatory Agreement provides that the Office shall have certain remedies upon an event of default under the Regulatory Agreement, the Deed of Trust, the Indenture or the Loan Agreement. The following is only a summary of those remedies.

A. Notice and Declaration of a Default under the Regulatory Agreement. Upon an event of default under the Regulatory Agreement, the Deed of Trust, the Indenture, or the Loan Agreement, the Office shall have the remedies provided by California Health and Safety Code section 129173, which are incorporated in the Regulatory Agreement, as well as the following. The Office may give written notice thereof to the Borrower by registered or certified mail, addressed to the address stated in the Regulatory Agreement, or such other address as may subsequently, upon appropriate written notice thereof to the Office, be designated by the Borrower as their legal business address. If such violation is not corrected to the satisfaction of the Office within thirty (30) days, or in the event the default is the result of the failure of the Borrower to make a payment required to be made to the Trustee or the result of the loss or threatened loss of the license of the Borrower, then five (5) days, after the date such notice is mailed or within such further time as the Office determines in the Office's sole discretion is necessary to correct the violation, without further notice the Office may declare a default under the Regulatory Agreement effective on the date of such declaration of default.

B. Additional Remedies Available to the Office. Notwithstanding any other provision in the Regulatory Agreement or provision of law relating to the acquisition, management or disposal of real property by the State, the Office shall have the power to do any or all of the following:

1. Possess, operate, complete, lease, rent, renovate, modernize, insure, or sell for cash or credit, in its sole discretion, any properties conveyed to it in exchange for debentures as provided in the Insurance Law;

2. Pursue to final collection by way of compromise or otherwise all claims against the Borrower assigned by the Trustee to the Office; or

3. Convey and execute in the name of the Office deeds of conveyance, deeds of release, assignments and satisfactions of the Deed of Trust, and any other written instrument relating to real or personal property or any interest therein acquired by the Office.

4. In the event a receiver is appointed for the Borrower at the request of the Office, such receiver, if so requested by the Office, shall serve without bond.

Capital Replacement Fund

The Borrower shall establish a separate fund designated as the "Capital Replacement Fund." For each of the Corporation's Fiscal Years beginning with the Borrower's Fiscal Year commencing on August 1, 2010, the Borrower shall deposit on a quarterly basis (i.e., on January 1, April 1, July 1 and October 1 of each Fiscal Year) one quarter of the Capital Replacement Amount for the respective Fiscal Year; provided that if the Borrower has received grants for the purchase of, or have purchased equipment for capital purposes, or have expended sums for the repair or maintenance of the Facilities, such grants, the value of such equipment or expended sums may be credited against the amount to be deposited as specified in a Statement of the Borrower filed with the Trustee and the Office; provided further that the Borrower may reduce the deposit required to the Capital Replacement Fund by a Capital Replacement Fund credit which shall be an amount equal to the expenditures of the Borrower for the previous Fiscal Year for property which is depreciable (in accordance with generally accepted accounting principles). In order to be entitled to receive such a credit, the Borrower must certify in writing to the Office along with the certification required in the Regulatory Agreement.

Moneys held in the Capital Replacement Fund may be used from time to time without the consent of the Office for any of the following purposes: (1) For the acquisition of new, or the replacement of obsolete or worn out, machinery, equipment, furniture, fixtures or other personal property; (2) For the performance of repairs with respect to the Facilities which are of an extraordinary and nonrecurring nature; and (3) For the construction of additions to or improvements, extensions, enlargements or remodeling of the Facilities. In addition, moneys held in the Capital Replacement Fund may also be used from time to time, with the consent of the Office: (4) To provide working capital for the payment of current expenses if the Borrower shall undertake in writing to repay the amount withdrawn for such purpose within fifty-two (52) weeks, provided that no such borrowing pursuant to this clause shall be outstanding for a period of at least thirty (30) consecutive days during each period of thirteen (13) consecutive months beginning with the first deposit to the Capital Replacement Fund and (5) To pay or provide funds for payment of the principal (whether pursuant to stated maturity or mandatory sinking fund or other redemption requirement) or interest on any obligations of the Corporation, but only if and to the extent that the Borrower would otherwise be unable to make such payment or provide such funds without incurring additional indebtedness.

The Borrower, on or prior to January 1 in each year, commencing January 1, 2010, shall calculate the Capital Replacement Amount and send written certification of such amount to the Office.

The Capital Replacement Fund shall be maintained and held by the Borrower and shall not constitute a Trustee-held fund, provided, however, that the Capital Replacement Fund, at the direction of the Office, shall be transferred to and held by the Trustee if either: (1) the annual Statement of the Borrower's Accountant demonstrates that the balance in the Capital Replacement Fund is less than the Capital Replacement Amount and the Borrower do not increase the balance in the Capital Replacement Fund to the Capital Replacement Amount within thirty (30) days of receipt of such Statement, or (2) the Gross Revenue Fund is transferred to the name and credit of the Trustee pursuant to the Loan Agreement.

Debt Coverage Ratio Reporting

Within forty-five (45) days after each January 31, April 30, July 31, and September 30, (each three-month period ending on each such date being referred to herein as a "Fiscal Quarter") commencing with the Fiscal Quarter ending on April 30, 2010, the Borrower shall compute the Net Income Available for Debt Service for such Fiscal Quarter and for the twelve-month period ending on the last day of such Fiscal Quarter ("Running Twelve-Month Period") and the Borrower shall promptly furnish to the Office a Statement setting forth the results of such computation. If:

Net Income Available for Debt Service for any such Running Twelve Month Period ending on or after July 31, 2010 shall have been less than 1.40 times Maximum Aggregate Annual Debt Service;

the Borrower shall, upon the request of the Office, employ a Management Consultant to make recommendations as to a revision of the rates, fees and charges of the Facilities or the methods of operation of the Facilities which will result in producing Net Income Available for Debt Service sufficient to satisfy the above tests. The Borrower shall provide copies of the recommendations of the Management Consultant to the Office. The Office also may retain attorneys and consultants to assist in an evaluation of the operation and management of the Facilities and the Borrower shall pay the reasonable, documented fees and expenses of such attorneys and consultants and any expenses incurred by the Office in that connection.

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APPENDIX D

FORM OF CONTINUING DISCLOSURE AGREEMENT

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CONTINUING DISCLOSURE AGREEMENT

ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS INSURED REVENUE BONDS (CASA DE LAS CAMPANAS, INC.) SERIES 2010

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by Casa de las Campanas, Inc., a nonprofit public benefit corporation duly organized and existing under the laws of the State of California (the "Corporation"), and U.S. Bank National Association, a national banking association organized and existing under the laws of the United States, in its capacity as dissemination agent hereunder (the "Dissemination Agent"), in connection with the issuance of $54,310,000 ABAG Finance Authority for Nonprofit Corporations Insured Revenue Bonds (Casas de las Campanas, Inc.), Series 2010 (the "Bonds"). The Bonds are being issued pursuant to a Bond Indenture, dated as of January 1, 2010 (the "Indenture"), between the ABAG Finance Authority for Nonprofit Corporations (the "Authority") and U.S. Bank National Association (the "Trustee"). The proceeds of the Bonds are being loaned by the Authority to the Corporation pursuant to a Loan Agreement, dated as of January 1, 2010 (the "Loan Agreement"), between the Authority and the Corporation. Pursuant to Section 6.10 of the Indenture and Section 5.4 of the Loan Agreement, the Corporation and the Dissemination Agent covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Corporation and the Dissemination Agent for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the S.E.C. Rule 15c2-12(b)(5). The Corporation is an "obligated person" within the meaning of the Rule. The Corporation and the Dissemination Agent acknowledge that the Authority has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under this Disclosure Agreement, and has no liability to any person, including any Holder or Beneficial Owner of the Bonds, with respect to the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Corporation pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Beneficial Owner" shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including any person holding Bonds through nominees, depositories or other intermediaries).

"Bond Insurer" shall mean the Office of Statewide Health Planning and Development of the State of California.

"Disclosure Representative" shall mean the Executive Director of the Corporation or his or her designee, or such other person as the Corporation shall designate in writing to the Dissemination Agent and the Trustee from time to time.

"Dissemination Agent" shall mean the Trustee, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Corporation and which has filed with the Trustee a written acceptance of such designation in the form attached hereto as Exhibit B.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"MSRB" shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at http://emma.msrb.org.

"Participating Underwriter" shall mean Cain Brothers & Company, LLC, or any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"Quarterly Reports" shall mean any Quarterly Reports provided by the Corporation pursuant to, and as described in, Section 3 of this Disclosure Agreement.

"State" shall mean the State of California.

SECTION 3. Provision of Annual Reports and Quarterly Reports.

(a) The Corporation shall, or shall cause the Dissemination Agent to, not later than one hundred fifty (150) days after the end of the Corporation's fiscal year (which fiscal year currently ends on July 31), commencing with the report for the fiscal year ending July 31, 2010, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Corporation may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Corporation's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f). The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Bonds by name and CUSIP number.

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, the Corporation shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). The Corporation shall provide a written certification with the Annual Report furnished to the Dissemination Agent and the Trustee to the effect that such Annual Report constitutes the Annual Report required to be furnished by the Corporation hereunder. The Dissemination Agent and Trustee may conclusively rely upon such certification of the Corporation. If by fifteen (15) Business Days prior to such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Corporation and the Trustee (if the Trustee is not the Dissemination Agent) to notify the Corporation and the Trustee (if the Trustee is not the Dissemination Agent) of the requirements of subsection (a) and this subsection (b). If the Dissemination Agent is unable to verify that an Annual Report has been provided to the MSRB by the date required in subsection (a), the Dissemination Agent shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall (if the Dissemination Agent is other than the Corporation) file a report with the Corporation certifying that the Annual Report has been provided pursuant to this Disclosure Agreement and stating the date it was provided to the MSRB.

(d) The Corporation shall also provide to the Dissemination Agent and the Dissemination Agent shall file in the same manner as described above quarterly unaudited financial statements (in accordance with the Corporation's accounting period) including a balance sheet and statement of operations and changes in net assets (the "Quarterly Reports") within forty-five (45) days after the end of the applicable quarterly fiscal period, commencing with the fiscal quarter ending January 31, 2010.

SECTION 4. Content of Annual Reports. The Corporation's Annual Report shall contain or include by reference the following:

(a) The audited financial statements of the Corporation for the fiscal year ended the previous July 31, prepared in accordance with generally accepted accounting principles applicable from time to time to the Corporation. If the Corporation's audited financial statements are not available by the time the Annual Report is required to be provided to the MSRB pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement relating to the Bonds, and the audited financial statements shall be provided to the MSRB in the same manner as the Annual Report when they become available;

(b) The total number of the Corporation's facilities for the most recently completed fiscal year;

(c) The number of employees (including professional staff) and full-time equivalent employees of the Corporation for the most recently completed fiscal year and information regarding the number of employees subject to collective bargaining agreements;

(d) A table showing utilization of the Corporation as shown in Appendix A to the Official Statement under the caption "HISTORICAL UTILIZATION" for the most recently completed fiscal year

(e) Tables showing the Summary Balance Sheet and Summary Statements of Operations and Changes in Net Assets of the Corporation as shown in Appendix A to the Official Statement under the caption "SELECTED FINANCIAL INFORMATION—Summary Balance Sheet and Statement of Operations and Changes in Net Assets;"

(f) A table showing the source of patient revenues of the Corporation as shown in Appendix A to the Official Statement under the caption "SELECTED FINANCIAL INFORMATION—Sources of Revenues" for the most recently completed fiscal year;

(g) A table showing capitalization of the Corporation as shown in Appendix A to the Official Statement under the caption "SELECTED FINANCIAL INFORMATION—Capitalization" for the most recently completed fiscal year; and

(h) A table showing debt service coverage and days cash on hand as shown in Appendix A to the Official Statement under the caption "SELECTED FINANCIAL INFORMATION—Debt Service Coverage and Days Cash on Hand" for the most recently completed fiscal year.

Any or all of the items listed above may be set forth in one or a set of documents or may be included by specific reference to other documents, including official statements of debt issues with respect to which the Corporation is an "obligated person" (as defined by the Rule), which have been made available to the public on the MSRB's website and the Bond Insurer, or filed with the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The Corporation shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Corporation shall give, or upon delivery of the information to the Dissemination Agent, the Dissemination Agent shall give, notice of the occurrence of any of the following events with respect to the Bonds, if material under applicable federal securities laws:

1. Principal and interest payment delinquencies;

2. Non-payment related defaults;

3. Modifications to rights of Bondholders;

4. Optional, contingent or unscheduled prepayment of Bonds;

5. Defeasances;

6. Rating changes;

7. Adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds;

8. Unscheduled draws on the debt service reserves reflecting financial difficulties;

9. Unscheduled draws on credit enhancements reflecting financial difficulties;

10. Substitution of credit provider, or its failure to perform; and

11. Release, substitution or sale of property securing repayment of the Bonds.

(b) The Trustee shall, within five (5) Business Days or as soon as reasonably practicable thereafter of obtaining actual knowledge of the occurrence of any of the Listed Events without any responsibility for any determination of materiality, contact the Disclosure Representative, inform such person of the event, and request that the Corporation promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f). For purposes of this Disclosure Agreement, "actual knowledge" of such Listed Events shall mean knowledge by an officer of the Trustee at its corporate trust office with regular responsibility for matters related to the Indenture and Bonds.

(c) Whenever the Corporation obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Dissemination Agent pursuant to subsection (b) or otherwise, the Corporation shall, as soon as possible, determine if such event would be material under applicable federal securities laws.

(d) If the Corporation has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Corporation shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f).

(e) If in response to a request under subsection (b), the Corporation determines that the Listed Event would not be material under applicable federal securities laws, the Corporation shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f).

(f) If the Dissemination Agent has been instructed by the Corporation to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the MSRB and the Bond Insurer with a copy to the Corporation. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the Holders of affected Bonds pursuant to the Indenture.

SECTION 6. Termination of Reporting Obligation. The Corporation's, the Dissemination Agent's and the Trustee's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior prepayment or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Corporation shall give notice of such termination in the same manner as for a Listed Event under Section 5(f). If the Corporation's obligations under the Loan Agreement are assumed in full by some other entity, such person shall be responsible for compliance with this Disclosure Agreement in the same manner as if it were the Corporation and the original Corporation shall have no further responsibility hereunder.

SECTION 7. Dissemination Agent. The Corporation may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be U.S. Bank National Association. The Dissemination Agent may resign at any time by providing at least thirty (30) days written notice to the Corporation and the Trustee. If a successor Dissemination Agent is appointed to assist the Corporation in carrying out its obligations under this Disclosure Agreement, such successor Dissemination Agent shall execute an acceptance of duties as Dissemination Agent in the form attached as Exhibit B.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Corporation, the Dissemination Agent and the Trustee may amend this Disclosure Agreement (and the Trustee and the Dissemination Agent shall agree to any amendment so requested by the Corporation, provided neither the Trustee nor the Dissemination Agent shall be obligated to enter into any amendment increasing or affecting its duties or obligations) and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original execution and delivery of the Bonds after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders, or (ii) does not, in the opinion of the nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Corporation shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Corporation. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(f), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Corporation from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Corporation chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Agreement, the Corporation shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the Corporation, the Dissemination Agent or the Trustee to comply with any provision of this Disclosure Agreement, the Trustee, at the written direction of any Participating Underwriter or the Holders of at least 25% aggregate principal amount of Outstanding Bonds, shall, but only to the extent indemnified by the Corporation hereunder or pursuant to the Loan Agreement or Indenture to its satisfaction for any liability or expense, including without limitation reasonable attorney's fees and expenses and any additional fees and charges of the Trustee, or any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Corporation, the Dissemination Agent or the Trustee, as the case may be, to comply with its obligations under this Disclosure Agreement. Upon any such default, the Trustee shall promptly notify (and confirm in writing) the Authority of such event but the Authority shall have no duties pursuant to this Disclosure Agreement as a result of being so notified. A default under this Disclosure Agreement shall not be deemed an event of default under the Indenture or the Loan Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the Corporation, the Dissemination Agent or the Trustee to comply with this Disclosure Agreement shall be an action to compel performance. In no event shall any violation of this Disclosure Agreement, by itself, constitute a violation of any other laws, including other applicable securities laws.

SECTION 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Article VIII of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture. The Dissemination Agent and the Trustee shall have only such duties as are specifically set forth in this Disclosure Agreement, and the

Corporation agrees to indemnify and save the Dissemination Agent and the Trustee, their officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including reasonable attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's or Trustee's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Corporation for its services provided hereunder in accordance with its schedule of fees as agreed to between the Dissemination Agent and the Corporation from time to time and all reasonable expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent and the Trustee shall have no duty or obligation to review any information provided to it by the Corporation hereunder and shall not be deemed to be acting in any fiduciary capacity for the Corporation, the Holders or Beneficial Owners or any other party. The obligations of the Corporation under this Section shall survive resignation or removal of the Dissemination Agent or the Trustee and payment of the Bonds.

SECTION 12. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the Corporation:	Casa de las Campanas, Inc. 18655 West Bernardo Drive San Diego, CA 92127 Attention: Executive Director
To the Trustee:	U.S. Bank National Association 633 West Fifth Street, 24th Floor Los Angeles, CA 90071 Attention: Corporate Trust Services
To the Dissemination Agent:	U.S. Bank National Association 633 West Fifth Street, 24th Floor Los Angeles, CA 90071 Attention: Corporate Trust Services
To the Bond Insurer:	Office of Statewide Health Planning and Development 300 Capitol Mall, Suite 1500 Sacramento, California 95814 Attention: Deputy Director, Cal Mortgage Loan Insurance Division

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Authority, the Corporation, the Trustee, the Dissemination Agent, the Participating Underwriters, the Bond Insurer and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Date: January 28, 2010

CASA DE LAS CAMPANAS, INC.

By:____________________________________
Authorized Representative

By:____________________________________
Authorized Representative

U.S. BANK NATIONAL ASSOCIATION,
as Dissemination Agent

By:____________________________________
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: ABAG Finance Authority for Nonprofit Corporations

Name of Issue: ABAG Finance Authority for Nonprofit Corporations Insured Revenue Bonds (Casa de las Campanas, Inc.), Series 2010

Name of Corporation: Casa de las Campanas, Inc.

Date of Issuance: January 28, 2010

NOTICE IS HEREBY GIVEN that Casa de las Campanas, Inc. has not provided an Annual Report with respect to the above-named Bonds as required by Section 5.4 of the Loan Agreement relating to the Bonds, dated as of January 1, 2010, between the Authority and the Corporation. The Corporation anticipates that the Annual Report will be filed by ____________.

Dated:_________, 20__

U.S. BANK NATIONAL ASSOCIATION.,
as Dissemination Agent

By:_________________________________
Authorized Officer

cc: Casa de las Campanas, Inc.

EXHIBIT B

ACCEPTANCE OF DUTIES AS DISSEMINATION AGENT

The undersigned, duly authorized officer of [Name of Successor Dissemination Agent] (the "Dissemination Agent") hereby accepts the duties and obligations imposed upon the undersigned as Dissemination Agent under the Continuing Disclosure Agreement, dated January 28, 2010, between Casa de las Campanas, Inc. and U.S. Bank National Association, as Trustee and initial Dissemination Agent.

The principal corporate trust office of the Dissemination Agent is ____________ ____.

Dated: ________________

[NAME OF SUCCESSOR DISSEMINATION AGENT], as successor Dissemination Agent

By: ____
Authorized Officer

cc: Casa de las Campanas, Inc.
__________________________, as Trustee or any successor Trustee

APPENDIX E

FORM OF OPINION OF BOND COUNSEL

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January 28, 2010

Casa de las Campanas, Inc.

ABAG Finance Authority for Nonprofit Corporations

Cain Brothers & Company, LLC

U.S. Bank National Association

Re: $54,310,000 ABAG Finance Authority for Nonprofit Corporations Insured Revenue Bonds (Casa de las Campanas, Inc.), Series 2010

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance and sale by the ABAG Finance Authority for Nonprofit Corporations (the "Issuer"), of its $54,310,000 ABAG Finance Authority for Nonprofit Corporations Insured Revenue Bonds (Casa de las Campanas, Inc.) Series 2010 (the "Bonds").

All capitalized terms used herein and not otherwise defined shall have the same meanings as ascribed to them under the Bond Indenture (the "Indenture") between the Issuer and U.S. Bank National Association, as trustee (the "Trustee"), dated as of January 1, 2010.

The description of the Bonds in this opinion and other statements concerning the terms and conditions of the issuance of the Bonds do not purport to set forth all of the terms and conditions of the Bonds, the Indenture, the Agreement (as defined herein) or any other document relating to the issuance of the Bonds, but are intended only to identify the Bonds and to describe briefly certain features thereof.

The Bonds are dated the date of their initial authentication and delivery, were issued in fully registered form, and will mature on the date set forth in the Indenture, and bear interest on the outstanding principal balance thereof, from the date thereof, at the interest rates described in the Indenture. The Bonds are subject to mandatory and optional redemption prior to maturity in the manner and upon the terms and conditions set forth in the Indenture.

The Bonds are payable both as to principal and interest from certain revenues payable by the Borrower to the Issuer under the a Loan Agreement (the "Agreement") between the Issuer and Casa de las Campanas, Inc. (the "Borrower"), dated as of January 1, 2010, and from certain other sources, as more particularly described in the Indenture. The Issuer's rights under the Agreement (with certain exceptions) have been assigned to the Trustee pursuant to the terms of the Indenture.

The Bonds are being issued to (i) refund certain outstanding indebtedness, (ii) fund a termination payment to terminate an interest rate swap related to a portion of such indebtedness, (iii) finance the acquisition and construction of certain capital improvements to properties of the Borrower and (iv) pay certain other expenses incurred in connection with the issuance of the Bonds, as more particularly described in the Indenture and the Agreement.

The Bonds and the obligations evidenced thereby do not constitute a general debt, liability or obligation of the Issuer or the State of California or any political subdivision or agency thereof, or a pledge of the faith and credit of or the taxing power of the Issuer or the State of California or any political subdivision or agency thereof. The Issuer is not obligated to pay the indebtedness evidenced by the Bonds or any interest thereon except from amounts payable to it under the Agreement, or from other collateral pledged therefor, and neither the faith and credit nor the taxing power of the Issuer or the State of California or any political subdivision or agency thereof is pledged to pay the principal of, premium, if any, or the interest on the Bonds.

In rendering the opinions set forth below, we have examined certified copies of a resolution adopted by the Issuer on January 6, 2010, authorizing the issuance of bonds in support of the Borrower (the "Issuer Resolution"), certified copies of the resolutions adopted by the Board of Directors of the Borrower and executed copies of the Indenture, the Agreement, the Tax Certificates dated January 28, 2010, executed by the Issuer and the Borrower, respectively, and various certificates and opinions delivered in connection therewith, and are relying on the covenants and agreements of the Borrower, the Issuer and the Trustee contained therein, including, without limitation, the covenant of the Borrower to comply with the applicable requirements contained in Section 103 and Part IV of Subchapter B of Chapter 1 of the Internal Revenue Code of 1986, as amended (the "Code"), and applicable regulations thereunder, to the extent necessary to preserve the exclusion of interest on the Bonds from gross income for federal income tax purposes.

We have also examined certified notices and resolutions relative to approval of the issuance of the Bonds by the Board of Supervisors of the County of San Diego and other proofs submitted to us relative to the issuance and sale by the Issuer of the Bonds.

In addition to the foregoing, we have examined and relied upon the opinion dated the date hereof of Procopio, Cory, Hargreaves & Savitch LLP as to the status of the Borrower as an organization described by Section 501(c)(3) of the Code and as to other matters set forth therein.

We have not undertaken an independent audit, examination, investigation or inspection of the matters described or contained in such certificates, representations and opinions, and have relied solely on the facts, estimates and circumstances described and set forth therein.

In our examination of the foregoing, we have assumed the genuineness of signatures on all documents and instruments, the authenticity of documents submitted as originals and the conformity to originals of documents submitted as copies.

The opinions set forth below are expressly limited to, and we opine only with respect to, the laws of the State of California and the federal income tax laws of the United States of America.

Based upon and subject to the foregoing, we are of the opinion that:

(1) The Indenture has been duly authorized, executed and delivered by the Issuer and, assuming due authorization, execution and delivery thereof by the other parties thereto, is a valid and binding obligation of the Issuer, enforceable against the Issuer in accordance with its terms. The Indenture creates a valid pledge of the all of the Revenues and other assets on the terms and conditions set forth in the Indenture.

(2) The Bonds are valid, legally binding and enforceable special obligations of the Issuer, payable solely from certain revenues derived pursuant to the Agreement and certain other collateral pledged or encumbered therefor, in the manner described in the Indenture, the Agreement and the Bonds.

(3) The Loan Agreement has been duly executed and delivered by, and constitutes a valid and binding agreement of, the Issuer.

(4) Under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and will not be treated as an item of tax preference for purposes of the federal alternative minimum tax; however, it should be noted that with respect to corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax.

The opinions expressed in this paragraph (4) are conditioned upon compliance by the Issuer, the Trustee and the Borrower with their covenants relating to certain arbitrage rebate and other tax requirements contained in Section 103 and Part IV of Subchapter B of Chapter 1 of Subtitle A of the Code (including, without limitation, their covenants to comply with the requirements contained in Section 148 of the Code), to the extent necessary to preserve the exclusion of interest on the Bonds from gross income for federal income tax purposes. Failure of the Issuer, the Trustee or the Borrower to comply with such requirements could cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds.

Other provisions of the Code may give rise to adverse federal income tax consequences to particular holders. The scope of this opinion is limited to matters addressed above and no opinion is expressed hereby regarding other federal tax consequences that may arise due to ownership of the Bonds.

(5) Under existing law, the interest on the Bonds is exempt from State of California personal income taxes.

Our opinions expressed herein are predicated upon present laws and interpretations thereof. We assume no affirmative obligation with respect to any change of circumstances, laws or interpretations thereof after the date hereof that may adversely affect the opinions contained herein or the exclusion from gross income of interest on the Bonds for federal income tax purposes.

All opinions as to legal obligations of the Issuer and the Borrower set forth above are subject to and limited by (i) bankruptcy, insolvency, reorganization, moratorium or similar laws, in each case relating to or affecting the enforcement of creditors' rights, (ii) applicable laws or equitable principles that may affect remedies or injunctive or other equitable relief, and (iii) other applicable laws that may affect remedies, but do not, in our opinion, materially impair the practical realization of available remedies or the benefits or security of the parties entitled thereto.

This opinion shall not be deemed or treated as an offering circular, prospectus or official statement, and is not intended in any way to be a disclosure document used in connection with the sale or delivery of the Bonds.

The scope of our engagement in relation to the issuance of the Bonds has been limited solely to the examination of facts and law incident to rendering the opinions expressed herein. We have not been engaged nor have we undertaken to review or verify and therefore express no opinion as to the accuracy, adequacy, fairness, completeness or sufficiency of any information or material that may have been used in the offering or placement of the Bonds. In addition, we have not passed upon and therefore express no opinion as to the compliance by the

Issuer, the Borrower, or any other party involved in this financing with, or the necessity of such parties complying with, any federal or state registration requirements or security statutes, regulations or rulings with respect to the offer, sale or distribution of the Bonds.

Sincerely yours,

HOLLAND & KNIGHT LLP

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APPENDIX F

BOOK-ENTRY SYSTEM

The information in this appendix concerning DTC, Cede & Co. and the Book Entry System has been furnished by DTC for use in disclosure documents such as this Official Statement. The Authority, the Corporation and the Underwriter believe such information to be reliable, but none of the Authority, the Corporation or the Underwriter take any responsibility for the accuracy or completeness thereof.

The Depository Trust Company ("DTC") will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate per maturity will be issued for each stated maturity of each Series of the Bonds, each in the aggregate principal amount of such stated maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (Indirect Participants"). DTC has a Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Authority. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

Use of Certain Terms in Other Sections of this Official Statement. In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Indenture will be given only to DTC.

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the Authority, the Corporation or the Underwriter.

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APPENDIX G

FEASIBILITY STUDY

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HENDRICKSON CONSULTING

1505 Bridgeway – Suite 101, Sausalito, California 94965 - (415) 332-7169 – Bill.Hendrickson@SBCGlobal.net

FINAL REPORT

CASA DE LAS CAMPANAS

FINANCIAL FEASIBILITY REPORT

September 21, 2009

HENDRICKSON CONSULTING

1505 Bridgeway, Sausalito, CA 94965 – (415) 332-7169 – Bill.Hendrickson@SBCGlobal.net

September 21, 2009

Kim Dominy
Executive Director
Casa De Las Campanas
18655 W Bernardo Drive
San Diego, CA 92127

Dear Ms. Dominy:

We are pleased to submit this feasibility study for Casa De Las Campanas (CDLC), a 501(c)(3) corporation that owns and operates a continuing care retirement community (CCRC) in San Diego, California. CDLC includes 380 independent living (IL) units, 71 assisted living and memory care (AL/MC) beds, and a 99-bed skilled nursing facility (SNF). CDLC began operations in 1988. The proceeds of the $54.3 million 2009 Bonds will be used to refinance $43.4 million existing debt, fund a $3.5 million termination payment related to the existing interest rate swap, and fund $4.0 million of general improvements. The transaction will permit CDLC to convert its existing variable-rate debt to fixed-rate. The portion applied to general improvements (apartment refurbishment, roofing, other building improvements) will allow CDLC to retain its cash and investment reserves. CDLC's Foundation (Casa Foundation) is not reflected in the forecasts, and its assets and revenues are not pledged to the 2009 Bonds

The 2009 Bonds are anticipated to be issued in December 2009 and insured through Cal Mortgage. The 2009 Bonds are expected to have a 28-year term with approximately level debt service. The forecasts are based on an approximate average coupon rate of 6.125%. Semi-annual interest payments to bondholders will begin on March 1, 2010. Annual principal payments will be made to bondholders beginning on September 1, 2010.

To evaluate the financial feasibility of the transaction we have reviewed critical information sources, including the following:

- the key revenue sources for CDLC;
- the key expenses for CDLC;
- the estimated costs and timing of the improvements, and
- the terms and structure of the proposed bond issue.

The information obtained through this process has been used to forecast CDLC financial statements for the fiscal years ending July 31, 2010 to 2014. Based on our evaluation, the debt coverage ratio is expected to equal or exceed 2.80x maximum annual debt service in all forecast years. In addition, the sources of funds will be adequate to meet operating expenses, working capital, and other capital requirements.

The forecasts contained in this report are based on several assumptions. To the extent that these assumptions are not realized, the actual results may vary accordingly. Implementation of policies and procedures to attain the forecast results is the responsibility of CDLC and its management. Since forecasts of future events are subject to uncertainty, we cannot guarantee these forecasts as specific results that will be achieved.

We appreciate the assistance provided by CDLC management during the preparation of this study.

Sincerely,

William D. Hendrickson

William D. Hendrickson
Hendrickson Consulting

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SECTION A
CASA DE LAS CAMPANAS
STATEMENTS OF ACTIVITIES
($000s)

Fiscal Year Ending July 31	2007	2008	2009	2010	2011	2012	2013	2014
REVENUE								
Resident Fees - IL	$13,353	$13,750	$13,404	$13,280	$14,214	$15,201	$16,245	$16,895
Resident Fees - AL	1,323	1,710	2,000	2,225	2,314	2,407	2,503	2,603
Resident Fees - SN	4,569	4,776	5,872	5,954	6,192	6,440	6,697	6,965
Resident Fees - Home Health/Clinic	370	462	684	662	688	716	745	774
Amortized Entrance Fees	7,063	8,208	8,150	8,000	8,221	8,461	8,719	8,995
Other	41	0	92	50	52	54	56	58
Contributions	471	83	95	40	100	100	100	100
Investment Income/Realized Gains	2,165	3,214	1,211	998	1,169	1,216	1,300	1,381
Total Revenue	**$29,355**	**$32,203**	**$31,508**	**$31,209**	**$32,950**	**$34,595**	**$36,365**	**$37,772**
EXPENSES								
Resident Services	$804	$873	$835	$780	$836	$895	$959	$997
Health Center	4,544	4,965	4,984	4,990	5,190	5,397	5,613	5,838
Assisted Living	1,759	2,022	1,510	1,600	1,664	1,731	1,800	1,872
Home Health/Clinic	358	414	1,180	1,180	1,264	1,354	1,450	1,508
Plant and Maintenance	3,736	3,588	3,483	3,410	3,653	3,913	4,191	4,359
Housekeeping and Laundry	1,558	1,635	1,638	1,590	1,703	1,824	1,954	2,033
Food and Beverage	4,751	5,146	5,296	4,950	5,302	5,680	6,084	6,328
General and Administrative	4,046	3,839	3,415	4,070	3,928	4,085	4,248	4,418
Depreciation & Amortization	3,904	4,434	4,788	5,043	5,483	5,781	6,170	6,590
Interest	1,826	2,341	2,529	3,452	3,294	3,289	3,238	3,183
Total Expenses	**$27,286**	**$29,257**	**$29,658**	**$31,066**	**$32,317**	**$33,949**	**$35,708**	**$37,125**
Net Income	**$2,069**	**$2,946**	**$1,850**	**$143**	**$634**	**$646**	**$657**	**$647**
Unrealized Gains (Losses)	$1,774	($7,170)	($9,097)	$833	$1,004	$1,051	$1,135	$1,216
Other Adjustments	(419)	(115)	(2,348)	(3,500)	0	0	0	0
Change in Unrestricted Net Assets	**$3,424**	**($4,339)**	**($9,595)**	**($2,524)**	**$1,638**	**$1,697**	**$1,793**	**$1,863**
Change in T Restricted Net Assets	(43)	(100)	(601)	(100)	(100)	(100)	(100)	(100)
Change in P Restricted Net Assets	164	43	6	0	0	0	0	0
CHANGE IN NET ASSETS	**$3,545**	**($4,396)**	**($10,190)**	**($2,624)**	**$1,538**	**$1,597**	**$1,693**	**$1,763**
BALANCE (DEFICIT)	**$23,748**	**$19,352**	**$9,162**	**$6,538**	**$8,076**	**$9,674**	**$11,366**	**$13,129**

SECTION A
CASA DE LAS CAMPANAS
STATEMENTS OF FINANCIAL POSITION
($000s)

Fiscal Year Ending July 31	2007	2008	2009	2010	2011	2012	2013	2014
ASSETS								
Cash & Equivalents - Unrestr.	$2,320	$1,555	$3,064	$2,000	$2,000	$2,000	$2,000	$2,000
Cash & Equivalents - Restr.	3,390	1,711	1,937	1,937	1,937	1,937	1,937	1,937
Accounts Receivable	918	746	798	820	825	873	924	978
Other Current Assets	1,874	1,181	1,515	1,576	1,639	1,704	1,772	1,843
Total Current Assets	$8,502	$5,193	$7,314	$6,332	$6,401	$6,515	$6,634	$6,758
Investments - Restricted	$2,666	$1,703	$2,302	$2,302	$2,302	$2,302	$2,302	$2,302
Investments - Unrestricted	36,436	37,811	23,047	28,015	31,699	35,064	38,283	41,902
Trustee-Held Bond Funds	3,009	3,202	2,972	5,915	4,115	4,115	4,115	4,115
Foundation Receivables	2,902	2,980	2,666	2,666	2,666	2,666	2,666	2,666
Net Property, Plant, Equip.	69,274	70,530	70,490	69,600	70,616	70,135	70,066	69,776
Other Assets	1,378	1,288	1,288	1,288	1,288	1,288	1,288	1,288
TOTAL ASSETS	**$124,167**	**$122,707**	**$110,079**	**$116,118**	**$119,087**	**$122,085**	**$125,353**	**$128,807**
LIABILITIES								
Accts. Payable/Accr. Exp.	$2,772	$3,263	$3,976	$2,725	$2,852	$2,941	$3,087	$3,237
Resident Deposits	910	621	410	410	410	410	410	410
Other Current Liabilities	1,005	1,242	1,268	1,300	1,300	1,300	1,300	1,300
Current Debt - Leases	50	52	40	30	20	20	17	0
Current Debt - Bonds	0	0	0	655	825	875	930	990
Total Current Liabilities	$4,737	$5,178	$5,694	$5,120	$5,407	$5,546	$5,744	$5,937
Unamortized Entrance Fees	$48,028	$48,476	$44,340	$45,597	$47,586	$49,743	$52,067	$54,555
Long-term Debt	45,645	45,645	45,645	53,655	52,830	51,955	51,025	50,035
Capital Leases	138	87	87	57	37	17	0	0
Gift Annuities Obligations	1,871	3,970	5,143	5,143	5,143	5,143	5,143	5,143
TOTAL LIABILITIES	**$100,419**	**$103,356**	**$100,909**	**$109,572**	**$111,002**	**$112,403**	**$113,979**	**$115,670**
NET ASSETS	**$23,748**	**$19,351**	**$9,170**	**$6,546**	**$8,084**	**$9,682**	**$11,374**	**$13,137**
TOTAL NET ASSETS/LIAB.	**$124,167**	**$122,707**	**$110,079**	**$116,118**	**$119,087**	**$122,085**	**$125,353**	**$128,807**

SECTION A
CASA DE LAS CAMPANAS
STATEMENTS OF CASH FLOWS
($000s)

Fiscal Year Ending July 31	2007	2008	2009	2010	2011	2012	2013	2014
OPERATING ACTIVITIES								
Change in Net Assets	$3,545	($4,396)	($10,190)	($2,624)	$1,538	$1,597	$1,693	$1,763
Depreciation and Amortization	3,904	4,434	4,788	5,043	5,483	5,781	6,170	6,590
Amortized Entrance Fees	(7,063)	(8,208)	(8,150)	(8,000)	(8,221)	(8,461)	(8,719)	(8,995)
Investment/Other Losses (Gains)	(3,940)	3,957	9,097	(833)	(1,004)	(1,051)	(1,135)	(1,216)
Other Adjustments	200	168	122	3,500	0	0	0	0
Changes in Assets/Liabilities	(846)	923	587	(1,301)	58	(25)	27	26
Cash From Operating Act.	**($4,200)**	**($3,122)**	**($3,746)**	**($4,214)**	**($2,146)**	**($2,159)**	**($1,965)**	**($1,833)**
INVESTING ACTIVITIES								
Project Expenditures	$0	$0	$0	($2,200)	($1,800)	$0	$0	$0
Capital Expenditures	(6,073)	(5,485)	(4,747)	0	(4,700)	(5,300)	(6,100)	(6,300)
Other	3,940	(1,260)	(7,835)	833	1,004	1,051	1,135	1,216
Cash From Investing Act.	**($2,133)**	**($6,745)**	**($12,582)**	**($1,367)**	**($5,496)**	**($4,249)**	**($4,965)**	**($5,084)**
FINANCING ACTIVITIES								
Net Entrance Fees	$9,840	$8,739	$4,010	$9,257	$10,210	$10,618	$11,043	$11,484
Other	648	(663)	(330)	0	0	0	0	0
Net Debt Proceeds	43,941	1	28	54,310	0	0	0	0
Refunding/SWAP Termination	0	0	0	(46,910)	0	0	0	0
Discount/Issuance	0	0	0	(1,953)	0	0	0	0
Change in Bond Funds	0	0	0	0	0	0	0	0
Capital Lease Principal	(50)	(50)	(40)	(40)	(30)	(20)	(20)	(17)
Debt Principal Payments	(33,101)	0	0	(2,235)	(655)	(825)	(875)	(930)
Cash From Financing Act.	**$21,278**	**$8,027**	**$3,668**	**$12,429**	**$9,525**	**$9,773**	**$10,148**	**$10,537**
Net Change in Cash/Inv.	**$14,945**	**($1,840)**	**($12,660)**	**$6,847**	**$1,884**	**$3,365**	**$3,219**	**$3,619**
Cash & Investments	**$47,821**	**$45,982**	**$33,322**	**$40,169**	**$42,053**	**$45,418**	**$48,637**	**$52,256**
Unrestricted	38,756	39,366	26,111	30,015	33,699	37,064	40,283	43,902
Restricted	6,056	3,414	4,239	4,239	4,239	4,239	4,239	4,239
Restricted - Trustee Held	3,009	3,202	2,972	5,915	4,115	4,115	4,115	4,115

B. BACKGROUND

Casa De Las Campanas (CDLC) is a 501(c)(3) non-profit corporation which owns and operates a continuing care retirement community (CCRC) on a 22 acre site located in Rancho San Bernardo in California, approximately 25 miles northeast of the City of San Diego. CDLC opened in 1988, and currently consists of 380 independent living (IL) units, 71 assisted living and memory care (AL/MC) beds, and a 99-bed skilled nursing facility (SNF). CDLC has been managed by Life Care Services LLC (LCS) since 1997 and the current management agreement extends to 2014.

THE FINANCING

CDLC currently has $43.4 million in outstanding debt consisting of $28.2 million Series 2007A variable rate tax-exempt bonds supported by a letter of credit (LOC) with J.P. Morgan and $15.2 million Series 2007B variable rate taxable bonds which were converted to Bank Bonds in February 2009 and are currently owned by JP Morgan. The LOC is set to expire in July 2010 and CDLC has been notified by JP Morgan that the LOC will not be extended. The motivation for seeking Cal Mortgage insurance is due to the expiration of the LOC and CDLC's desire to convert the variable rate debt to a more stable fixed rate structure. As part of the refinancing, CDLC will terminate an existing fixed-rate Swap (estimated termination payment of $3.5 million) that was executed to manage the interest rate risk of the Series 2007A bonds. In addition to the refinancing, CDLC is seeking approximately $4.0 million in funds for general capital improvements, including apartment refurbishments, roofing, and other building improvements.

THE LEGAL STRUCTURE/PROGRAM

New CDLC entrants enter into one of two continuing care contracts approved by the California Department of Social Services (DSS). These include a "Standard Plan" and a "75% Refundable Plan". Under the Standard Plan, entrants pay a one-time entrance fee which is refundable over a 90 month (7.5 year) period on a 1% per month declining basis. Under the 75% Refundable Plan, entrants pay a higher one-time entrance fee and receive 75% of the original entrance fee back when the contract is terminated through death or withdrawal. The refund is not contingent on resale of the unit and, as a result, CDLC does maintain a DSS-required refund reserve. Although the 75% Plan has been offered since 2001, currently only five units have selected this option, and 98% of all residents are covered under the Standard Plan. About three residents are covered under other Refundable plans which are no longer offered. CLDC expects to modify its Standard Plan later this year by shortening its refundable period to 60 months. Such change needs approval by DSS.

Residents receive the same services under either plan and pay the same monthly fee. Services include three meals per day, weekly housekeeping, and a range of social and activity programs. AL/MC and SN care are provided to residents at the same monthly fee as paid for their IL apartments. A member of a couple who transfers to these levels of care pays the second person monthly fee rate, so that the couple pays no more on a combined basis than they do in their IL unit.

THE BOARD OF DIRECTORS

CDLC is governed by a nine-member Board of Directors. Directors are eligible to serve up to three consecutive three-year terms. Current Board members have served an average of four years. Members also participate in a series of committees including Finance & Investment, Foundation, Health Services, and Marketing.

CDLC also has a separately incorporated Foundation (Casa Foundation) which was established in 1994 for the purpose of soliciting donations. The Casa Foundation has five Board members, three of which are on the CDLC Board. The other two members are CDLC residents. The Foundation Board decides how Foundation funds are distributed to CDLC. The Casa Foundation financial statements are not reflected in **Section A**.

C. PROJECT DESCRIPTION

The project consists of two components; the refinancing of existing debt, and the funding of ongoing capital improvements.

REFINANCING OF EXISTING DEBT

CDLC issued $28.7 million of tax-exempt (Series 2007A) and $16.9 million (Series 2007B) of taxable variable refunding bonds (total $45.6 million) in May 2007. The proceeds were primarily used to advance refund California Health Facility Financing Authority (CHFFA) 1998 Bonds insured through the Cal Mortgage program. The 2007 Bonds were insured by Radian Asset Assurance and supported by a liquidity facility provided by KCB Bank. As part of the 2007 transaction CDLC entered into two separate floating to fixed rate swaps to manage the interest rate risk associated with the two bond series.

The collapse of the auction rate securities sector in late 2007 and early 2008 and concerns regarding bond insurers led to increases in weekly interest rates on the Series 2007 Bonds. In response, CDLC decided to wrap the Radian insurance with a "direct-pay" one-year LOC, which it obtained from JP Morgan in February 2008. As a result, the liquidity facility from KBC was no longer needed and CDLC paid a $170,000 cancellation fee. In August 2008 JP Morgan informed CDLC that it would not renew the LOC upon expiration in February 2009. When the LOC expired in February 2009, the 2007 Bonds could not be remarketed and became Bank Bonds. In July 2009 JP Morgan agreed to extend the LOC on the 2007A Bonds to July 2010, but did not extend the LOC on the 2007B Bonds. The 2007A Bonds are currently trading in the market as tax-exempt variable-rate bonds and have the interest rate reset weekly. The 2007B Bonds are still being held by JP Morgan as Bank Bonds, with a 60 month principal amortization schedule. The interest rate swap on the 2007B Bonds was terminated earlier this year at a cost of $1.8 million. The swap on the 2007A Bonds will be terminated as part of the refinancing, at an estimated cost of $3.5 million. The termination value will vary depending on variable interest rates (higher rates reduce required termination payment) and other factors (e.g. tax rates, industry/credit risk)

The proposed 2009 Bonds will permit the refunding of the 2007 Bonds and avoid the burden of the 2007B Bonds accelerated principal schedule, as well as general interest rate risk and LOC renewal associated with variable-rate bonds.

PRIOR AND FUTURE CAPITAL IMPROVEMENTS

CDLC has spent approximately $6 million annually on miscellaneous capital improvements during the past few years, and has identified a total of $4.0 million in improvements scheduled in Fiscal Year (FY) 2010 and FY 2011 to be funded from 2009 Bond proceeds. These improvements include apartment refurbishments, roofing, and other building improvements.

Capital expenditures completed in the last two years and applied to the Cal Mortgage's 10% ($6.0 million for 2009 Bonds) equity requirement include kitchen remodeling ($3.3 million), apartment refurbishments ($1.7 million), roofing ($660,000), and other projects (about $400,000).

FINANCING ASSUMPTIONS

The 2009 Bonds financing assumptions reflected in **Tables 1 and 2** have been provided by Cain Brothers, CDLC's investment banker. We have assumed that bonds are dated December 1, 2009 and insured through the State of California's Cal Mortgage insurance program. Interest rates are estimated to average about 6.1% and the bond term extends through 2037. Interest payments are due on September 1 and March 1, beginning on March 1, 2010 and principal payments are due annually on September 1, beginning in 2010. In addition to the 2009 Bond payments, **Table 2** also includes payments on 2007 Bonds and historical and projected capital lease payments.

Equity is provided by two sources; prior expenditures and the 2007 Bond debt reserve.

TABLE 1
CASA DE LAS CAMPANAS
SOURCES/USES OF FUNDS
($000s)

Fiscal Year Ending July 31	TOTAL	Thru 2009	2010	2011	2012	2013	2014
SOURCES							
Bonds	$54,310	$0	$54,310	$0	$0	$0	$0
Cash Equity - Prior Expenditures	$6,034	6,034	0	0	0	0	0
Cash Equity - 2007 Bonds DSR	$2,668	0	2,668	0	0	0	0
Other	$0	0	0	0	0	0	0
TOTAL SOURCES	**$63,012**	**$6,034**	**$56,978**	**$0**	**$0**	**$0**	**$0**
USES							
Capital Expenditures	$10,034	$6,034	$2,200	$1,800	$0	$0	$0
Refunding Escrow Deposit	$43,410	0	43,410	0	0	0	0
SWAP Termination	$3,500	0	3,500	0	0	0	0
Debt Reserve Fund	$4,115	0	4,115	0	0	0	0
Cal Mortgage Fees	$1,223	0	1,223	0	0	0	0
Discount/Issuance Fees	$730	0	730	0	0	0	0
Subtotal - Other Costs	**$63,012**	**$6,034**	**$55,178**	**$1,800**	**$0**	**$0**	**$0**
TOTAL USES	**$0**	**$0**	**$1,800**	**($1,800)**	**$0**	**$0**	**$0**
BALANCE	**$0**	**$0**	**$1,800**	**$0**	**$0**	**$0**	**$0**

TABLE 2
CASA DE LAS CAMPANAS
DEBT PAYMENT SCHEDULE
($000s)

Fiscal Year Ending July 31	2007	2008	2009	2010	2011	2012	2013	2014
2007 BONDS								
Interest	$1,820	$2,335	$2,522	$951	$0	$0	$0	$0
Principal	$0	$0	$0	$2,235	$0	$0	$0	$0
Total Payments	**$1,820**	**$2,335**	**$2,522**	**$3,186**	**$0**	**$0**	**$0**	**$0**
Balance	**$45,645**	**$45,645**	**$45,645**	**$43,410**	**$0**	**$0**	**$0**	**$0**
2009 BONDS								
Interest	$0	$0	$0	$2,495	$3,289	$3,286	$3,236	$3,182
Principal	$0	$0	$0	$0	$655	$825	$875	$930
Total Payments	**$0**	**$0**	**$0**	**$2,495**	**$3,944**	**$4,111**	**$4,111**	**$4,112**
Balance	**$0**	**$0**	**$0**	**$54,310**	**$53,655**	**$52,830**	**$51,955**	**$51,025**
CAPITAL LEASES								
Interest	$6	$6	$7	$6	$4	$3	$2	$1
Principal	$50	$50	$40	$40	$30	$20	$20	$17
Total Payments	**$56**	**$56**	**$47**	**$46**	**$34**	**$23**	**$22**	**$18**
Balance	**$187**	**$140**	**$127**	**$87**	**$57**	**$37**	**$17**	**$0**
TOTAL DEBT								
Interest	$1,826	$2,341	$2,529	$3,452	$3,294	$3,289	$3,238	$3,183
Principal	$50	$50	$40	$2,275	$685	$845	$895	$947
Total Payments	**$1,876**	**$2,391**	**$2,569**	**$5,727**	**$3,979**	**$4,134**	**$4,133**	**$4,130**
EOY Balance	**$45,832**	**$45,785**	**$45,772**	**$97,807**	**$53,712**	**$52,867**	**$51,972**	**$51,025**

D. REVENUE AND EXPENSE ASSUMPTIONS

The following is a discussion of key historical and forecast utilization, revenue, and expense assumptions for CDLC.

REVENUES

CDLC relies on five key revenue sources: entrance fees, monthly fees, investment earnings, contributions, and other sources. **Table 3** shows a summary of current (FY 2010) entrance fees and monthly fees for CDLC. All monthly fees are forecast to increase by 4.0% per year after FY 2010.

Monthly Fees

Table 4 shows a summary of IL occupancy and monthly fee forecasts. Monthly fees increased an average of 4.2% per year for the last five years and were increased by 5.5% in FY 2010. IL occupancy averaged 98% from FY 2004-2008 before declining to an average of 92% in FY 2009, and ending FY 2009 at 87%. CDLC management believes this decline is due primarily to the housing recession and has budgeted 87% occupancy for FY 2010. CDLC has historically relied on resident referrals for over 80% of their new entrants, significantly above industry averages. After FY 2010 occupancy is forecast to gradually increase, reaching its pre-recession level of 95% by FY 2013. A lower occupancy level is forecast in the sensitivity analysis in **Section G.**

AL/MC occupancy averaged 85% in FY 2009 and is expected to increase to 91% in FY 2010 due to a forecast increase in residents transferring from IL (occupancy in August 2009 averaged 92%). The number of AL beds were last expanded by 16 in FY 2008. IL unit transfers account for nearly all AL/MC occupants, and approximately 12% of the occupants are second person IL transfers paying the lower $1,348 monthly fee. CDLC charges a private room premium for its MC residents (currently about $870 per month) but does not charge for its AL residents. Total MC premium charges are estimated at $90,000 in FY 2010 (approximately nine residents).

The SNF typically operates at 75% occupancy for licensed beds and 90% of operating beds. The lower operating beds reflect CDLC's decision to retain some of the rooms for private usage. CDLC charges a $40 private room daily ($1,220 per month) premium for its residents in private rooms and a $53 private room premium ($1,610 per month) for residents occupying a converted semi-private room. Total SNF private room premiums are estimated at about $200,000 in FY 2010. The SNF is occupied by an average of 57 contract residents (including about half of the 11 total Medicare-reimbursed occupants), or about 75% of the total occupied beds. Non-contract Medicare and private pay/managed care reimbursed patients comprise the remaining 25%. Non-contract residents account for two-thirds of the SNF revenue despite their relatively low numbers.

TABLE 3
CASA DE LAS CAMPANAS
KEY UNIT/FEE ASSUMPTIONS
FISCAL YEAR 2010 DOLLARS

UNIT/BED TYPE	TOTAL UNITS	SQUARE FEET	ENTRANCE FEES Amort.	75% Rep.	MONTHLY FEE	RES. PER UNIT	TOTAL RES.
INDEPENDENT LIVING UNITS							
Studio/Alcove	6	460	$164,000	$274,000	$2,020	1.00	6
Studio/Alcove - Deluxe	11	550	$191,000	$319,000	$2,160	1.00	11
One-Bedroom - B	51	650	$217,000	$362,000	$2,310	1.10	56
One-Bedroom - H	54	780	$261,000	$436,000	$2,510	1.10	59
One-Bedroom - C	45	810	$258,000	$431,000	$2,550	1.10	50
Two-Bedroom - D	45	960	$301,000	$503,000	$2,770	1.30	59
Two-Bedroom - E/I	110	1,140	$360,000	$601,000	$3,030	1.50	165
Two-Bedroom - F/L	13	1,440	$440,000	$735,000	$3,450	1.60	21
Two-Bedroom - J	37	1,530	$472,000	$788,000	$3,610	1.80	67
Two-Bedroom - K	8	1,850	$555,000	$927,000	$4,070	1.90	15
TOTAL/AVERAGE	**380**	**1,000**	**$317,000**	**$529,000**	**$2,820**	**1.34**	**508**
Double Fee	128		$35,000	$58,000	$1,350		
ASSISTED LIVING BEDS							
Semi-private - AL	22	220					
Private - AL	22	450					
Semi-private - MC	18	200					
Private - MC	9	400					
TOTAL/AVERAGE	**71**	**310**					
SKILLED NURSING BEDS							
Semi-Private	96	200					
Private	3	350					
TOTAL/AVERAGE	**99**	**200**					

TABLE 4
CASA DE LAS CAMPANAS
REVENUE ASSUMPTIONS
($000s)

Fiscal Year Ending July 31	2007	2008	2009	2010	2011	2012	2013	2014
INDEPENDENT LIVING								
Available Units	393.0	386.0	383.0	380.0	380.0	380.0	380.0	380.0
Occupied Units	382.0	373.0	354.0	330.0	340.0	350.0	360.0	360.0
Percent Occupancy	97.2%	96.6%	92.4%	86.8%	89.5%	92.1%	94.7%	94.7%
AVERAGE MONTHLY RATE	**$2,818**	**$2,960**	**$3,040**	**$3,227**	**$3,356**	**$3,491**	**$3,630**	**$3,775**
ANNUAL REVENUES								
Monthly Fees	$12,920	$13,250	$12,916	$12,780	$13,694	$14,661	$15,683	$16,310
Other IL Revenue	$433	$500	$488	$500	$520	$541	$562	$585
ANNUAL IL REVENUES	**$13,353**	**$13,750**	**$13,404**	**$13,280**	**$14,214**	**$15,201**	**$16,245**	**$16,895**
ASSISTED LIVING/DEMENTIA								
Available Beds	55.0	65.0	71.0	71.0	71.0	71.0	71.0	71.0
Occupied Beds	41.4	51.7	61.4	65.0	65.0	65.0	65.0	65.0
Percent Occupancy	75.3%	79.5%	86.5%	91.5%	91.5%	91.5%	91.5%	91.5%
AVERAGE MONTHLY RATE	**$2,597**	**$2,685**	**$2,685**	**$2,821**	**$2,933**	**$3,051**	**$3,173**	**$3,300**
ANNUAL REVENUES								
Monthly Fees	$1,290	$1,666	$1,978	$2,200	$2,288	$2,380	$2,475	$2,574
Other AL Revenue	$33	$44	$22	$25	$26	$27	$28	$29
ANNUAL AL REVENUES	**$1,323**	**$1,710**	**$2,000**	**$2,225**	**$2,314**	**$2,407**	**$2,503**	**$2,603**
SKILLED NURSING								
Available Beds	82.5	82.0	82.0	86.0	86.0	86.0	86.0	86.0
Occupied Beds	74.5	70.5	74.9	77.0	77.0	77.0	77.0	77.0
Percent Occupancy	90.3%	86.0%	91.3%	89.5%	89.5%	89.5%	89.5%	89.5%
PAYOR MIX (NUMBER)								
Contract Residents	51.4	47.7	49.2	51.0	51.0	51.0	51.0	51.0
Community - Private Pay/Other	15.1	12.1	14.4	14.7	14.7	14.7	14.7	14.7
Community - Medicare	8.0	10.7	11.3	11.3	11.3	11.3	11.3	11.3
AVERAGE DAILY RATE w/ANCILLARIES								
Contract Resident	$80	$99	$109	$118	$122	$127	$132	$138
Community - Private Pay/Other	$235	$270	$281	$278	$289	$300	$312	$325
Community - Medicare	$608	$478	$591	$551	$573	$596	$620	$645
ANNUAL REVENUES								
Contract Resident	$1,499	$1,717	$1,954	$2,190	$2,278	$2,369	$2,463	$2,562
Community - Private Pay/Other	$1,296	$1,192	$1,479	$1,490	$1,550	$1,612	$1,676	$1,743
Community - Medicare	$1,774	$1,867	$2,439	$2,274	$2,365	$2,460	$2,558	$2,660
ANNUAL SNF REVENUES	**$4,569**	**$4,776**	**$5,872**	**$5,954**	**$6,192**	**$6,440**	**$6,697**	**$6,965**

Entrance Fees

Entrance fees under the Standard Plan range from $164,000 for studios (only six units) to $580,000 for a large premium two-bedroom unit. There is also a second person entrance fee of $35,000. All entrance fee prices are increased by 67% for the 75% Refundable Plan. The FY 2010 prices represent a 2% decrease from FY 2009 when set prices and incentive discounts are included. Prices have increased by an average of 5% per year over the last several years and are forecast to increase by 4.0% per year after FY 2010. In addition, all entrants are assumed to select the Standard Plan.

The number of move-ins averaged 34 IL units per year in the five year period from FY 2004 to FY 2008, including 35 in FY 2007 and 30 in FY 2008. In FY 2009 move-ins dropped to 13 units (4, 2, 2, and 5 in each of the four quarters). This decline was attributed to the recent housing recession. Move-ins increased in the last quarter of 2009 and there have been five move-ins in the first six weeks of FY 2010 through September 10. CDLC management believes that sales will significantly improve in FY 2010. IL move-ins are budgeted at 33 in FY 2010, and 35 in FY 2011 and thereafter. Total entrance fee revenues are shown in **Table 5.** Forecast ratios under lower sales assumptions are shown in **Section G.**

TABLE 5
CASA DE LAS CAMPANAS
ENTRANCE FEE REVENUES
(000s)

Fiscal Year Ending July 31	2007	2008	2009	2010	2011	2012	2013	2014
Resales	35.0	30.0	13.0	33.0	35.0	35.0	35.0	35.0
Average Price	$299,400	$342,800	$343,800	$330,000	$343,200	$356,900	$371,200	$386,000
Gross Resale Revenues	$10,480	$10,283	$4,470	$10,890	$12,012	$12,492	$12,992	$13,510
Refunds	($640)	($1,544)	($460)	($1,634)	($1,802)	($1,874)	($1,949)	($2,027)
NET ENTRANCE FEES	**$9,840**	**$8,739**	**$4,010**	**$9,257**	**$10,210**	**$10,618**	**$11,043**	**$11,484**

Other Revenues

Other revenues consist of space rentals and other miscellaneous revenues. Other revenues total about $50,000 and are forecast to increase by 4.0% per year.

Contributions and Fundraising

Fundraising is provided primarily through the separately incorporated Casa Foundation, whose financial statements are not reflected in the **Section A** forecasts. The Foundation is governed by five-member Board of Directors, three of who are also on the CDLC Board. The Foundation raises about $600,000 per year in contributions from CDLC residents. About half of the contributions are classified as temporarily restricted since they are tied to specific programs or capital expenditures. CDLC also receives direct contributions. These are estimated at $200,000 in FY 2010 and increased by 4.0% per year thereafter.

Investment Income

CDLC invests in a wide variety of instruments, including publicly traded equity and fixed income mutual funds. In FY 2007 CDLC earned about $3.6 million in investments and realized and unrealized gains (about $1.3 million or one-third of the total earnings), an approximate 7.0% return on the average $50 million in unrestricted and restricted funds. In FY 2008 this total declined to a net loss of $1.4 million; $3.3 million in investment earnings and realized gains and $4.7 million in unrealized losses. The investment losses continued in FY 2009 with $1.2 million of investment earnings and net realized gains, offset by $7.8 million in unrealized losses (CDLC also experienced accrual losses of $1.3 million on the 2007A Bond derivatives).

As a result of the losses in FY 2008 and FY 2009, CDLC saw its total cash and investment balances decline from $48 million at the end of FY 2007 to $33 million at the end of FY 2009. The unrealized loss in FY 2009 represented about 20% of CDLC's investment portfolio. CDLC currently has approximately 60% of its investments in equities and 40% in fixed income securities and cash. CDLC's specific investment goals are reflected in their April 2009 plan and are based upon a well-diversified portfolio to avoid undue exposure to any single economic sector, industry group, or individual security. In response to the market decline through March 2009 CDLC continues to rebalance a portion of its portfolio quarterly with a long-term investment goal of 6.8%.

Earnings in FY 2010 and thereafter are estimated to average 5.0% of prior year cash and investment balances, including 2.5% of the earnings in the form of unrealized gains.

EXPENSES

Operating expenses are summarized in **Tables 6 and 7**. CDLC's total operating expenses excluding interest and depreciation are budgeted at $22.6 million in FY 2010, a 1.0% increase from FY 2009. Expenses have remained stable since FY 2008. After FY 2010, operating expenses are increased at an inflation rate of 4.0% per year with additional increases in specific departments to reflect increased IL occupancy.

Salaries and Benefits

CDLC currently operates with approximately 285 full-time equivalent (FTE) employees, about 25 FTEs fewer than in FY 2007. In response to the declining occupancy in FY 2009, CDLC has also limited salary increases to an average per FTE of about 0% in FY 2010. As shown in **Table 7**, FTEs are projected to increase as occupancy levels rise back to their pre-2009 levels.

Other Operating Expenses

Other operating expenses account for approximately 45% of total departmental expenses, with utilities, food, SNF ancillaries, LOC fees, and LCS management fees the largest categories. Other operating expenses are projected to increase by 4.0% per year for inflation with several categories (resident services, home health, clinic, housekeeping, plant, dietary) also increasing as occupancy improves. Other operating expenses include LOC and remarketing fees, which are estimated at $300,000 in FY 2010 for five months of payments on 2007A Bonds before terminating in December 2009.

LCS Management Fees

LCS has been providing management services to CDLC since 1997 and recently renewed a five-year contract through mid-2014. LCS currently receives a $45,000 monthly management fee ($540,000 per year), incentives, and is also reimbursed for salaries and benefits for the Executive Director and the Administrator positions. Total LCS payments are budgeted at approximately $1.01 million in FY 2010 (including fees, purchased services, and incentives), a 2% increase from the $0.99 million in FY 2009. Payments fell from $1.04 million in FY 2008 due to LCS staff reductions at CDLC.

Interest Expense

Interest expense includes Bond interest as well as a small amount for capital leases. Interest payments for the 2009 Bonds are shown in **Table 2**.

TABLE 6
CASA DE LAS CAMPANAS
CURRENT OPERATING BUDGET
FISCAL YEAR 2010 DOLLARS

DEPARTMENT	Paid FTEs	Hr. Rate	Salaries	Benefits	Other	TOTAL
Resident Services	12.4	$17.06	$440,000	$130,000	$210,000	$780,000
Health Center	64.7	$22.22	$2,990,000	$680,000	$1,320,000	$4,990,000
Assisted Living	36.1	$16.51	$1,240,000	$310,000	$50,000	$1,600,000
Home Health/Clinic	28.6	$15.63	$930,000	$220,000	$30,000	$1,180,000
Plant and Maintenance	25.7	$18.52	$990,000	$250,000	$2,170,000	$3,410,000
Housekeeping and Laundry	38.5	$12.49	$1,000,000	$320,000	$270,000	$1,590,000
Food and Beverage	63.7	$12.91	$1,710,000	$470,000	$2,770,000	$4,950,000
General and Administrative	15.3	$28.59	$910,000	$300,000	$2,860,000	$4,070,000
TOTAL/AVERAGE	**285.0**	**$17.22**	**$10,210,000**	**$2,680,000**	**$9,680,000**	**$22,570,000**

TABLE 7
CASA DE LAS CAMPANAS
EXPENSE SUMMARY
($000s)

Fiscal Year Ending July 31	2007	2008	2009	2010	2011	2012	2013	2014
SALARIES AND BENEFITS								
Salaries	$10,290	$10,640	$10,530	$10,210	$10,788	$11,417	$12,060	$12,540
Benefits	$2,650	$2,570	$2,770	$2,680	$2,832	$2,997	$3,166	$3,292
Total Salaries & Benefits	**$12,940**	**$13,210**	**$13,300**	**$12,890**	**$13,620**	**$14,414**	**$15,226**	**$15,832**
FTEs	311.9	302.7	293.0	285.0	290.0	295.0	300.0	300.0
Average Salary	$33,000	$35,200	$35,900	$35,800	$37,200	$38,700	$40,200	$41,800
Percent Benefits	25.8%	24.2%	26.3%	26.2%	26.2%	26.2%	26.2%	26.2%
OTHER EXPENSES								
Utilities	$1,800	$1,850	$1,850	$1,820	$1,890	$1,970	$2,050	$2,130
Food	$1,960	$2,150	$2,120	$2,040	$2,120	$2,200	$2,290	$2,380
Management Fees	$890	$980	$980	$960	$1,000	$1,040	$1,080	$1,120
Insurance	$720	$680	$630	$640	$670	$700	$730	$760
Healthcare Ancillaries	$750	$880	$1,030	$1,050	$1,090	$1,130	$1,180	$1,230
Other	$2,496	$2,732	$2,431	$3,170	$3,149	$3,426	$3,745	$3,901
Total Other	**$8,616**	**$9,272**	**$9,041**	**$9,680**	**$9,919**	**$10,466**	**$11,075**	**$11,521**
TOTAL DEPARTMENT	**$21,556**	**$22,482**	**$22,341**	**$22,570**	**$23,539**	**$24,879**	**$26,301**	**$27,353**

E. FINANCIAL STATEMENT ASSUMPTIONS

In addition to the CDLC operating assumptions, there are several other assumptions used to forecast the **Section A** financial statements.

STATEMENTS OF ACTIVITIES

The two accrual adjustments to the Statement of Activities includes amortized entrance fees and depreciation and amortization of capitalized costs.

Amortized Entrance Fees

The amortized portion of entrance fees are amortized over the estimated life of entrants (10 years).

Depreciation and Amortization

New capital expenditures are depreciated over a 10-year period. Fees and 2009 Bond issuance costs are amortized over 28 years.

STATEMENTS OF FINANCIAL POSITION

Assets

Accounts receivable are estimated at 14 days of cash revenues. Prepaid expenses and other current assets are increased by 4.0% per year from FY 2009.

Liabilities

Accounts payable are estimated at 60 days of cash operating expenses.

STATEMENTS OF CASH FLOWS

Ongoing capital costs are currently averaging $5.0+ million per year. The capital expenditures shown in **Section A** reflect CDLC's current long-term capital plan.

F. KEY FINANCIAL RATIOS

Table 8 shows a summary of key financial ratios for CDLC. As shown, CDLC has historically generated annual pre-debt cash flows over $10 million. This declined in FY 2009 due to investment losses and below average entrance fee receipts. Debt coverage and liquidity ratios are forecast to improve as sales and IL occupancy levels increase.

TABLE 8
CASA DE LAS CAMPANAS
DEBT COVERAGE AND OTHER KEY RATIOS
($000s)

Fiscal Year Ending July 31	2007	2008	2009	2010	2011	2012	2013	2014
CASH AVAILABLE FOR DEBT SERVICE								
Net Income	$2,069	$2,946	$1,850	$143	$634	$646	$657	$647
Depreciation and Amortization	3,904	4,434	4,788	5,043	5,483	5,781	6,170	6,590
Amortized Entrance Fees	(7,063)	(8,208)	(8,150)	(8,000)	(8,221)	(8,461)	(8,719)	(8,995)
Net Entrance Fees	9,840	8,739	4,010	9,257	10,210	10,618	11,043	11,484
Interest	1,826	2,341	2,529	3,452	3,294	3,289	3,238	3,183
Net Cash for Debt Service	**$10,576**	**$10,252**	**$5,027**	**$9,895**	**$11,400**	**$11,873**	**$12,389**	**$12,908**
DEBT SERVICE								
Interest	$1,826	$2,341	$2,529	$3,452	$3,294	$3,289	$3,238	$3,183
Principal	33,151	50	40	2,275	685	845	895	947
Total Payments	**$34,977**	**$2,391**	**$2,569**	**$5,727**	**$3,979**	**$4,134**	**$4,133**	**$4,130**
Unrestricted Cash and Equiv.	$38,756	$39,366	$26,111	$30,015	$33,699	$37,064	$40,283	$43,902
Long-term Debt	$45,645	$45,645	$45,645	$53,655	$52,830	$51,955	$51,025	$50,035
Operating Expenses w/Interest	$23,382	$24,823	$24,870	$26,022	$26,833	$28,168	$29,538	$30,535
Operating Cashflow w/o E Fees	($1,900)	($1,784)	($289)	($399)	($79)	($61)	($54)	($56)
KEY RATIOS								
Debt Coverage Ratio w/ E.Fee	5.64	4.29	1.96	1.73	2.87	2.87	3.00	3.13
Debt Coverage Ratio w/o E.Fee	0.39	0.63	0.40	0.11	0.30	0.30	0.33	0.34
Unrestr. Days Cash on Hand	605	579	383	421	458	480	498	525
Unrestr. Cash to Long-term Debt	84.9%	86.2%	57.2%	55.9%	63.8%	71.3%	78.9%	87.7%
Net Operating Margin	-9.9%	-8.8%	-1.4%	-1.9%	-0.3%	-0.3%	-0.2%	-0.2%
CASH AVAILABLE FOR DEBT SERVICE								
Cashflow from Operations	($1,900)	($1,784)	($289)	($399)	($79)	($61)	($54)	($56)
Net Entrance Fees	9,840	8,739	4,010	9,257	10,210	10,618	11,043	11,484
Contributions	471	83	95	40	100	100	100	100
Investment Earnings	2,165	3,214	1,211	998	1,169	1,216	1,300	1,381
Net Cash for Debt Service	**$10,576**	**$10,252**	**$5,027**	**$9,895**	**$11,400**	**$11,873**	**$12,389**	**$12,908**

G. SENSITIVITY FORECASTS

DESCRIPTION

The base case ration forecasts are shown in **Section A**. The following are debt coverage and days cash calculations under alternative scenarios.

Sensitivity 1 – Low Occupancy and Move-in Levels

Under this scenario, IL occupancy levels are projected to remain at the budgeted FY 2010 level of 87% through FY 2014. Entrance fee sales (move-ins) are held at 25 per year, 10 below historical levels.

Sensitivity 2 – Higher Interest Rates

Under this scenario, interest rates for the 2009 Bonds average 1.0% higher than the 6.1% used in the base case.

Sensitivity 3 – Low Sales/Higher Interest Rates

Under this scenario, sensitivities 1 and 2 are combined.

TABLE 9
CASA DE LAS CAMPANAS
DEBT COVERAGE AND OTHER KEY RATIOS
($000s)

Fiscal Year Ending July 31	2010	2011	2012	2013	2014
Base Case					
Debt Coverage	1.73	2.87	2.87	3.00	3.13
Unrestricted Days Cash	421	458	480	498	525
Sensitvity 1 - Low Occupancy/Sales					
Debt Coverage	1.34	2.11	2.09	2.17	2.34
Unrestricted Days Cash	390	392	378	360	344
Sensitvity 2 - High Interest Rates					
Debt Coverage	1.64	2.54	2.56	2.67	2.78
Unrestricted Days Cash	412	439	455	467	487
Sensitvity 3 - Combined 1/2					
Debt Coverage	1.27	1.87	1.86	1.93	1.99
Unrestricted Days Cash	380	374	354	330	308

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